

How did a Successful New Zealand Wine Company Develop Relationships in China to Support its Market Entry?

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MBus

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Table of Contents

Attestation of Authorship.....	iv
Acknowledgements	v
Ethics Approval.....	v
Abstract.....	vi
Chapter One: Introduction	1
1.1 Research Background	1
1.2 The Problem Statement	1
1.3 Research Objectives.....	2
1.4 Research Questions	2
Chapter Two: Literature Review	4
2.1 Opportunities for NZ Industry in China.....	4
2.2 Growth drivers for wine in China	5
2.3 The Challenges in China	7
2.4 Market Entry	8
2.4.1 Indirect exporting.....	10
2.4.2 Direct exporting.	10
2.4.3 Foreign manufacturing.....	11
2.4.4 How to choose the market entry mode?	11
2.4.5 Market entry strategies for the Chinese market.	12
2.5 Guanxi.....	13
2.5.1 The concept of guanxi.....	13
2.5.2 How to establish guanxi.....	14
2.5.3 How to maintain and expand guanxi.....	15
2.6 Factors Contributing to Business Success	16
2.7 Summary	17
Chapter Three: Research Methodology.....	19
3.1 Research Methodology	19
3.2 Semi-structured Interviews	20
3.3 Data Collection Methods	21
3.4 Data Analysis	21
3.5 Validity and Reliability	21
3.6 Ethical Considerations	22
Chapter Four: Findings.....	24
4.1 Theme One: the Huge Wine Market in China	24
4.1.1 Population.	24
4.1.2 Purchasing power increased.....	25

4.1.3	Drinking perception.	25
4.2	Theme Two: Four Stages of Market Entry	26
4.2.1	Stage One.....	27
4.2.2	Stage Two.	27
4.2.3	Stage three.....	28
4.2.4	Stage Four.	28
4.3	Theme Three: Relationship Network Building.....	29
4.3.1	The cultural difference.	29
4.3.2	Multiple distributors.....	31
4.3.3	Different channels for conducting sales.....	32
4.4	Theme Four: Factors Which Led to Success.....	33
4.4.1	Man on the ground.	33
4.4.2	Flexibility.	34
4.4.3	Competitive advantages.	36
4.4.4	Full use of resources.	39
Chapter Five: Discussion.....		41
5.1	Be Persistent.....	41
5.2	Be Flexible	42
5.3	Right Distributor	43
5.4	Man on the Ground	44
5.5	The Drivers of their Success	45
5.6	Valuable Lessons from China.....	45
5.7	Limitations of the Study.....	46
Chapter Six: Conclusion.....		47
References.....		49
Appendix 1.....		51
Appendix 2.....		53

Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for award of any other degree or diploma of a university or other institution of higher learning.

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Ethics Approval

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Abstract

China has taken the position of second largest economy in the world during the period the Chinese government applied economic reforms and an open-door to incoming foreign direct investment policy from December 1978. The rapidly growing economy has provided huge opportunities for the world. Recently the amount of New Zealand (NZ) exports to China has increased from NZ \$2.3 billion (2008) to NZ \$ 6.7 billion (2012). However, the export of wine to China, the subject of this research project, only represents a small proportion of these total exports (New Zealand Trade and Enterprise n.d. a).

For this study, a NZ wine company was selected from the finalists in the HSBC (the Hong Kong and Shanghai Banking Corporation) New Zealand China Trade Association (NZCTA) China Business Awards for 2013. The purpose was to identify a successful wine company's best practices for conducting business in China and share them with other companies.

In this study, interview questions were designed to respondents on strategies for international business operations, assessing the business environments, the barriers and challenges in China market, and the factors to the business success from literature review.

The semi-structured interviews were conducted face-to-face with the Managing Director and Marketing Manager in the company headquarters office, and with the Brand Manager in China, via internet chatting at different times, based on thirty questions that represented the research relevant issues.

Four themes emerged from the findings. Firstly, the company entered the Chinese market driven by the opportunity perceived as stemming from the very large population, the rapid increase in high income groups, and the changing perceptions of drinking grape wine. Secondly, the company has gone through four stages of market entry which represented the process of their business relationship development. They have not only endured a failure of distribution but also have entered into an exciting phase. Their persistence could be one of the reasons for their success. Thirdly, the company has established very strong guanxi relationships in the Chinese market including multiple distributors and different channels for sales after eight years of doing business in China. Finally, this research has identified the important factors in achieving business success

from many aspects; employing a local manager in China was the biggest factor in the company achieving its goals. In addition, the company's long term vision, competitive advantages, flexibility and full use of resources all played significant functions in the business success.

From this research, the findings have reflected the similarities with previous research about doing business in China, such as language, cultural difference, complicated relationship, gift-giving, banquets, reciprocal of favour, 'face' and 'renqing'. However, many channels for product sales in China are different from Western countries. For example; one channel is that of government which takes many banquets which can be unstable or risky, if the Central Government of China prohibits banquets, then the sale channel will be closed. Therefore, too much emphasis should not be placed on this channel. The target should be the groups with high incomes in China's urban areas.

Chapter One: Introduction

1.1 Research Background

According to New Zealand Trade and Enterprise (NZTE n.d. a), China has taken the position of second largest economy in the world during the period the Chinese government applied economic reforms and an open-door to incoming foreign direct investment policy from December 1978. The rapidly growing economy has provided huge opportunities for the world. Recently the amount of New Zealand (NZ) exports to China has increased from NZ \$2.3 billion (2008) to NZ \$ 6.7 billion (2012). However, the export of wine to China, the subject of this research project, only represents a small proportion of these total exports.

For this study, a NZ wine company was selected from the finalists in the HSBC (the Hong Kong and Shanghai Banking Corporation) New Zealand China Trade Association (NZCTA) China Business Awards for 2013. The purpose was to identify a successful wine company's best practices for conducting business in China and share them with other companies.

1.2 The Problem Statement

New Zealand was the first OCED (Organisation for Economic Cooperation and Development) country to have signed a Free Trade Agreement (FTA) with China, followed by Switzerland in July 2013. The FTA has provided many exporting opportunities for all sizes of enterprises in NZ. However, New Zealand Winegrowers (2013) point out that NZ wine in the Chinese markets are in early development phases as the amount of wine exports to China is tiny; in 2012, the amount was 1.2 per cent (2.2 million litres) of the New Zealand total wine exports, and 2.219 million litres in 2013.

According to a survey by New Zealand Trade and Enterprise (NZTE) in 2010, some 10,000 companies are not actively trading; they are infrequent and small-scale traders and only respond to enquiries from overseas. There are 1,519 companies exporting more than \$ 1 million worth of goods and services a year to China. Therefore, to expand and deepen commercial relationships with Asia could be a useful growth strategy for the NZ economy and companies (Oram, 2011).

Michael Barnett, the Director of the Chamber of Commerce in Auckland, maintains that not many NZ businesses are taking the plunge and entering the Chinese markets, although China has huge potential. He advises that investing in building relationships with China is important for NZ companies, but retaining management and control of their businesses and brands in China should be done carefully (ISSUU-DEMM, 2012).

1.3 Research Objectives

The purpose of this research project is to explore how the selected company succeeded in developing its business market in China and to find best practices for success in exporting wines to China, and share them publically, so that it might be helpful for businesses wanting to export wine to China.

1.4 Research Questions

- How did a successful New Zealand wine company develop relationships in China to support its market entry?
- What does the company do to remain successful and expand relationships?
- What do they see as the drivers of their success?
- What can other companies learn from this wine company?

Developing relationships as a means to support market entry in China can be very helpful for conducting business in China. This is because the Chinese traditional culture, called '*guanxi*', which means personal connection, has a fundamental function in guiding social activities. Everything relies on *guanxi*; without it there is no business (Davies, Leung, Luk, & Wong, 1995). *Guanxi* refers to developing, nurturing and maintaining relationships, so it is important to develop personal relationships with the partner and spend time in developing mutual trust; trust is the essential in starting a business relationship. However, to establish a relationship needs a considerable time investment, gift-giving and attendance at many banquets where toasts are proposed (How you do business in China, 1995).

After planning, execution of the project, took seven months to complete, going through the following steps:

1. Choosing a topic by literature review then narrowing down to the topic focusing seven New Zealand successful companies. One of them was chosen for the research.

2. Formulating research objectives and questions for analysis.
3. Outlining the key literature in the topic area.
4. Deciding on research methodology research design and methods, samples.
5. Developing the proposal and getting it approved.
6. Having ethics approval done by AUTECH.
7. Collecting data through AUT library database, books and government website.
8. Developing research questions and interview questions.
9. Arranging interviews.
10. Having interview records transcript.
11. Attending Nvivo training class.
12. Using Nvivo software to find themes.
13. Writing report.
14. Having someone proofread.

Following are six chapters, the introduction, literature review, methodology, findings, discussion and conclusion.

Chapter Two: Literature Review

Deakins, Battist, Perry, and Crick (2013, p. 5) find that existing literature indicates that a single theory cannot explain firms' internationalisation strategies and this behaviour should be considered in a “holistic” sense, i.e. recognising various aspects of particular theories in the context of individual circumstances affecting businesses over time. The focus of Deakins et al.'s commissioned study involves New Zealand firms' internationalisation strategies and perceptions of key decision-makers. They review the literature in a broad sense and selected themes are identified separately to provide an academic underpinning for investigations such as this. Emergent themes from the literature review include: motives to internationalise, international market selection, de-internationalisation, internationalisation challenges and the New Zealand context, and New Zealand government support and assistance.

In 2010, New Zealand exporting began serious efforts toward changing its focus from Europe to Asia, especially China, which is the rising source of golden opportunities for NZ exporters (Beard, 2010). Accordingly, Oram (2011) points out that it should be a top strategic priority for NZ to expand and deepen its commercial relationship with China, and it is mutually beneficial to have partnerships with Chinese businesses.

Developing relationships as a means of supporting market entry can be an initial step in doing international business, especially in China. Oram (2011) indicates that it can play a significant role in business success, particularly in nurturing personal relationships and is a necessary element for establishing businesses in China. Furthermore, having good relationships with Chinese partners would be beneficial for the development, expansion and sustainability of companies. However, the other key factors, including financial investment, time and energy spent, and understanding of cultural differences is also important to business success.

2.1 Opportunities for NZ Industry in China

With the rapid growth of the Chinese economy, huge business opportunities in China are being explored by the world. New Zealand Ministry of Foreign Affairs & Trade (NZMFAT 2012 b) indicates that:

China is a far cry from the domestic New Zealand market – it is 36 times the size of New Zealand, has a population over 300 times larger and a growth rate that sees its economy double every seven years. The reality is China is several large regional markets and many niche and micro-niche markets. Compartmentalising the market makes China more accessible to New Zealand businesses. (p. 33)

Prime Minister Marketing Manager Key says that one of the great success stories of the New Zealand export sector is the trade with China. Establishing a strong export base and expanding comprehensive engagement in the international economy are key elements in achieving economic growth, and boosting the welfare and future prospects of NZ people (NZMFAT 2012 b).

According to New Zealand Trade and Enterprise (NZTE n.d. b) the New Zealand economy has definitely been influenced positively by the rapid rise of the Asian economy. It has opened huge markets for NZ companies' goods and services. The Free Trade Agreement (FTA) between China and NZ has improved the business environment and promoted cooperation in a broad range of economic areas through liberalising and facilitating trade in goods and services (NZMFAT 2012 b).

However, Adam (2013) argues that it is difficult for New Zealand enterprises to overcome the small size of the domestic market and isolated developed economy so they should go overseas to expand their business. Marketing Manager Banks, the Minister for Small Business in 2013, maintains that New Zealand exporters can grow their business through government support. And this growth can happen quickly as soon as the government opens up markets through FTA. Banks mentions that the government's role is to offer all companies the best possible business environment to expand the business so that they can become exporters (O'neill, 2013).

2.2 Growth drivers for wine in China

According to New Zealand Trade and Enterprise (n.d. b) China ranks first as the world's largest recipient of foreign direct investment (FDI). The total of FDI was US\$ 59 billion during the first half year of 2012, and it built up over US\$3.305 trillion in foreign reserves by 2012; the economy growth rate increased at a rate of 10 per cent each year in the past three decades. And the amount of economy has achieved a US \$ 1 trillion in 2012.

In terms of the value of wine in the China market, it passed US\$ 10 billion with a market size volume of about two billion litres in 2012. The market forecast will grow at a Compound Annual Growth Rate of 10 per cent to reach around US\$ 19 billion with a market size volume of around three billion litres by 2016. China has a huge potential wine market as imported wine meets only one-fifth of the domestic market demand (NZTE n.d. b).

The rapid growth in China in the past decade has helped New Zealand's wine industry grow beyond \$1 billion in terms of revenue, despite dips in our economy since the global financial crisis. The Chinese are red wine drinkers, and of New Zealand's total \$25 million in wine exports to China in the year to June, \$10m was cabernet merlot. There is significant potential for medium and high-priced wines in China (Slade, 2012).

Furthermore, Smith (2008) maintains that the largest market for foreign wine can be explored through luxury hotels, restaurants, nightclubs and also the consumers with high incomes in larger cities, especially in the cities of Shanghai, Beijing and Guangzhou.

NZTE (n.d. c) reports that the urban population of China was 691 million by the end of 2011; among them, 178 million are potential wine drinkers who are aged between 25 and 44 years old and this number will grow, so the wine market will attract more business investors.

Campbell (2013) points out wealthy young Chinese women may be the future of New Zealand's wine industry. Particularly 25- to 35-year-old women are a very important target group. China is a really tough market; however, more New Zealand wineries are beginning relationships with Chinese distributors. In the meantime, the young and wealthy classes' perceptions of wine have also been influenced by Western influences on eating and drinking. They recognise drinking red wines as representing a symbolic association of wine with class status (NZTE n.d.c).

With incomes increasing, Chinese people have started to pay more attention to higher quality products. Since many fake brands of wine exist in the domestic market, they rely on imported wines which are expected to be healthier, safer, and taste better. They are getting to know New Zealand wine which has won a good reputation in the world due to the clean environment. The knowledge of grape wines has been enhanced through education, promotion and websites on the subject (NZTE n.d.c).

Although the demand for foreign wines is growing and the wine market in China will continue increasing, intensive competition might decrease New Zealand wine sales in the future. So companies should be aware of this and change their strategies in developing the proper products to meet the Chinese consumers' needs (NZTE n.d.c).

2.3 The Challenges in China

Doing business in China can be challenging not only because of language and cultural differences, but also because of other influences such as government policies, taxes, tariffs and the importance of the *guanxi* relationship. Language is a big obstacle in conducting business, especially in negotiation; foreigners are often lost in the process of interpreting. Taylor (2009) suggests that they need be patient in order to find the real answers to questions.

Misunderstandings cause some problems in business negotiations, as the interpreter may not express the right meaning, so that negotiations may be stalled. In such a case, the best way is to find the right partner locally; someone who has more local relationships and understands the local culture, as the right people can be useful in helping companies monitor their business processes and play a great role in communicating; it also can be beneficial in reducing costs and problem solving. As a matter of good business practice, a New Zealand company should employ their own interpreter, even if their Chinese business counterpart also provides one.

Another barrier is cultural difference, which has been identified as the biggest problem in conducting international business. Davies et al. (1995) indicate that nearly all foreign businessmen have experienced the great challenge of cultural differences, including language issues; the complicated *guanxi* (relationship) networks; the long process of negotiation; obstructive bureaucratic behaviour; poor administration, and management incompetence. They mention that business cannot be conducted smoothly in China if businesses do not have relationships in the appropriate key departments such as the bureaus of Labour, Tax, and Industrial Commerce. It always takes a long time to get documents approved due to bureaucracy.

Thus, it is very important to establish cohesive relationships with government and business associates. According to the Australia China Development Company (TACDC), doing business with China requires a great deal of bureaucratic know-how, plus personal connections to smooth the way; that is, having 'networks of influence'

(Xinhua, 2013). Oram (2011) suggests that being able to overcome this will obtain a significant competitive advantage for the company.

Andy Hamilton, Chief Executive of The Icehouse, the business growth centre at the University of Auckland Business School, indicates that New Zealand might have as few as 350 companies that are well established as exporters or investors overseas. These companies face many difficulties, such as lack of capital, technology, skilled workers and overseas partners. To overcome these problems, they are trying to develop business models that would enable them as small, highly entrepreneurial businesses to access those resources and succeed in international markets (Oram, 2011).

A New Zealander who runs a successful business in China suggests companies should understand the product which matches the market conditions including consumers, retailers and distributors in China. They should also use Kiwi consultants based in China who can give valuable advice. They should not neglect to employ the high-quality, English-speaking Chinese who are readily available (Adams, 2013).

For information relating to international market entry, I have chosen to employ the book by Gilligan and Hird (2013) as my primary source; it is a widely used international marketing textbook by authors with numerous publications in the area, and from a respected publisher.

2.4 Market Entry

Exporting, wholly-owned enterprises, joint ventures, licensing, and foreign direct investment (FDI) can be the most common modes for foreign market entry to conduct international business (Sletten, 1994). Each one has different features and functions. Gilligan and Hird (2013) divide foreign market entry into two parts which include home-country domestic production and foreign manufacturing. For domestic products, the most common option is direct exporting which is conducted by foreign distributors or sales agents and overseas sales subsidiaries. Indirect exporting is conducted through domestic purchasing, or export management companies and piggyback operations. For foreign manufacturing, the options are contract manufacturing, licensing, joint ventures, assembly operations and total ownership.

Gilligan and Hird (2013) suggest that the decision for market entry has to take into consideration many factors including the financial cost, size of the company, nature of the product, degree of competition within the overseas market, any distinct advantages,

and the knowledge of the market environment. Once a long-term commitment is made, it will be difficult and costly to find another distributor, so care must be taken in the initial selection.

The winery in my study reports 35 employees. In New Zealand this is a small firm; in some countries it could be classified as a “micro” firm. Westhead, Wright and Ucbasaran (2002), in a study of micro and small firms in the UK, found, in line with the *resource-based* theoretical perspective, ‘micro’ firms (with even fewer resources than ‘small’ firms) will seek less sophisticated and less resource depleting methods to enter foreign markets. ‘Micro’ firms with limited information and a narrower managerial expertise base may not actively consider alternative modes of foreign market entry. Risk averse owners of ‘micro’ firms may prefer to personally control their entry into foreign markets. Consequently, resource constrained ‘micro’ firms, with more limited networks, tend to select ‘direct exporting’ rather than more resource demanding modes such as export via an export agent, sales through a subsidiary, franchising or foreign direct investment in a branch. So we have a minimising risk to scarce resources approach to the theory. The company has demonstrated management skills in building a successful small business producing high quality wines. This kind of success indicates acquisition and utilisation of knowledge to grow the business. Regardless of the option the company chooses to enter China market, relationship developing is essential. Pearce and Robinson (2000, p. 24) state that:

Regardless of a company's mode of entry into China, the development of its guanxi network plays an important role in helping it gain a commercial foothold. Foreign investors most often enter China's markets through a JV [joint venture] or a wholly foreign-owned subsidiary. Under either option, they must be able to gain access to the appropriate guanxi webs, either through their JV partners or by recruiting targeted guanxi members as key personnel. Understandably, JVs remain the dominant entry mode because local Chinese partners, who provide access to the powerful guanxi networks, can facilitate quick acceptance of the foreign investor.

Additionally, personal guanxi networks can be helpful and useful in export market entry and expansion by New Zealanders.

2.4.1 Indirect exporting.

Gilligan and Hird (2013) indicate that indirect exporting is an attractive and low-cost market entry strategy taken by many companies, because the company have authorised someone overseas to sell the products in foreign markets. Indirect exporting involves using agents to obtain and negotiate sales. Agents take a percentage of the sales as payment for their services (NZTE n.d.a). Therefore, this requires little international expertise as it is in many ways similar to a domestic sales operation; the strategy is little more than an extension of distributing the product domestically.

2.4.2 Direct exporting.

Direct exporting is different from indirect exporting, in that everything is done from the home country. This includes compiling contacts lists, research of markets, setting up brand policies and price, and arranging distribution and documentation. Foreign sales agents or other distributors might sell the products for the company. Thus, direct exporting should lead to higher sales than indirect exporting (Gilligan & Hird, 2013). This is because the company has direct contact with potential customers including through exporting online, regular trade visits and establishing an overseas office to sell or manufacture locally (NZTE n.d.a).

Direct exporting can be more expensive than indirect exporting, as the company has to bear all the cost without sharing costs with other parties. So the company should consider its short- and long-term goals, and the costs and benefits when they make the decision about whether direct exporting is the appropriate strategy (Gilligan & Hird, 2013).

Compared to other market entry modes, the advantage of direct exporting is low cost and risk. It may facilitate economies of scale, and it provides controls over technology and intellectual property (Nagar & Enderwick, 2009). However, Uribe, Ebel and Hofer (2007) argue that failure to find the right distributor might cause a significant disadvantage as the exporter may lose contact with their customers, which may result in a lack of understanding of the market demand and customers' needs. Therefore, it is the biggest challenge to find an appropriate distributor.

2.4.3 Foreign manufacturing.

Foreign manufacturing approaches include joint ventures, wholly owned enterprise, licensing, contract manufacturing, and assembly operations (Gilligan & Hird, 2013). The reasons for companies moving their manufacturing overseas can be in order to seek cheap labour and resources, reduce the cost of transportation and to become familiar with the local market. Meanwhile, Gilligan and Hird (2013) suggest that companies should also consider other reasons such as avoiding tariff barriers and imposed quota levels, developing a better system of market feedback, improving delivery and service levels, and reducing the cost of production and distribution. So it is important to choose the appropriate approach for foreign manufacturing.

Partnerships, established through joint ventures, can be the best option for business because having relationships with a local company can reduce cultural obstacles and therefore increase sales. They may on-sell, represent or manufacture the company's product on their behalf. A licensing agreement authorises another company to use the company's intellectual property (IP). They have the right to use the company's IP to operate your business model and brand. Royalties are typically a percentage of sales derived from use of the licensed IP (NZTE n.d.a).

2.4.4 How to choose the market entry mode?

It is very important for a company to choose the market entry mode as it relates to the current state and the development of the company in the future. And each mode has its advantages and disadvantages.

Gilligan and Hird (2013) indicate that when using indirect exporting, the manufacturer might lose control of the market choice, as export management companies or other carriers will take control of the market instead of the manufacturer. Other markets can be entered by using more than one carrier; in this situation, the manufacturer should take care to ensure that territorial overlaps do not occur. In contrast to indirect exporting, direct exporting is completely open in terms of target markets. But there are some limitations which constrain the choice. For example, the e-market is too small, isolated, and poorly resourced financially. It is very costly to change products to meet consumers' needs. Considerable barriers exist in the trade restrictions, duties and tariff.

Gilligan and Hird (2013) suggest that once the choice of markets has been made, the company needs to decide how it is to be represented within each market. For the large and profitable markets, the best option is to build a sales subsidiary which can easily control the marketing programme. For smaller markets, the best approach is to choose distributors or agents who are able to provide sales and back-up support. The best way to achieve the control of distributors is through an initial contract which clarifies in detail the sales expectations and the backup support to be provided. Once a company has chosen the distributors, they should move their attention to the control and support of the distributors.

Gilligan and Hird (2013) emphasize that some important factors should be considered in the decision-making about the distributors including their knowledge of marketing, financial stability and sales coverage in the country. Moreover, it is important to establish the effective connection of communication and provide valuable profit margins through fully cooperating with the distributors in marketing and promotion support to achieve mutual benefits.

2.4.5 Market entry strategies for the Chinese market.

The most common entry modes for entering Chinese market are exporting, joint venture and wholly foreign owned enterprise. Exporting can be the fastest way to enter the Chinese market for those companies with few resources, because exporting does not need much investment in evaluating and getting to know the market, as the distributors are already familiar with the market.

Having the right distributors in China will be profitable but costly. For example; many companies had what they considered to be poor sales in the first few years as they didn't find the right distributors. This situation would be changed after they established a relationships with some national distributors which have very strong influences in China market.

NZTE (n.d.b) explains that wine distributors usually do not like to take on marketing and distribution of extra labels unless they are supported by significant marketing and financial resources by the wine company, as is usually the case with leading wine distributors of imported premium wines often being foreign companies with extensive experience in China. Therefore, NZ companies should make sure they have strong financial and marketing capabilities before

approaching these distributors. Because of the considerable cost of large scale marketing in China, NZ wineries may choose to focus their promotions on a specific region, city or consumer group.

It is imperative to have a deep understanding of Chinese culture before entering the Chinese market (NZTE n.d.b). Therefore, being able to understand the meaning of guanxi can be helpful for the smooth conduct of business.

2.5 Guanxi

2.5.1 The concept of guanxi.

In Chinese, guanxi is a compound word which is made of 'guan' (pass) and 'xi' (connect). It means a relationship or a connection between two individual people and can be mutually beneficial for the continuation of the relationship (Yeung & Tung, 1996). Once you have guanxi established then it is just like a magic key which can open any gates you would like to, and it seems like the lifeblood of business which can extend into politics and society (Davies et al., 1995).

Guanxi is like a personal net which can be knit one by one. As Pearce and Robinson (2000, p. 31) describe:

Guanxi is a network of relationships a person cultivates through the exchange of gifts and favours to attain mutual benefits. It is based on friendship and affection, and on a reciprocal obligation to respond to requests for assistance. People who share a guanxi network are committed to one another by an unwritten code. Disregarding this commitment can destroy a business executive's prestige and social reputation.

In China, creating guanxi is a priority when conducting anything. It says it is easier to get things done if you have guanxi.

Guanxi is a characteristic culture which dominates the activities in Chinese society. Yeung and Tung (1996) argue that guanxi controls Chinese society and it appears not to be diminishing, so it is the key factor to business success. Guanxi can be a shortcut in gaining information and resources through exchange of favours; however, it cannot guarantee long-term success in China. And, sometimes due to the restrictive or exclusive nature of quanxi, it can decrease the success of business over the life of the venture, perhaps by limiting opportunities for expansion. Yeung and Tung emphasise that other factors such as technical

competence, good quality products and proper business strategies and knowledge of markets are far more important in a business context.

When the pivotal function of guanxi is understood, business can be developed smoothly. Pearce and Robinson (2000, p. 31) maintain that “Personal relationships are the quintessential basis for all business transactions in China; people do business only with those they know and trust”. Therefore, negotiations can take a longer time than in the West, because companies need time to gather information about the other party and assess the reliability of a potential partner. Chinese prefer to focus on long-term relationships and goals rather than short-term objectives. Business relationships are designed to boost guanxi which can lead to other opportunities (Pearce & Robinson, 2000). And if negotiations are conducted by two parties who have already known and trusted each other and the results are mutually beneficial, then negotiations can be finished in a short time.

Guanxi has two aspects; one is about personal connections, and the other is about obligations so that people can gain resources and gain some advantages. The obligation aspect relates to the exchange of favours or the purchase of influence (Abramson & Ai, as cited in Wilson & Brennan, 2010). Therefore, when doing business in China, establishing a personal guanxi network and cultivating the relationship are both important. In particular, having relationships with one or more influential people in different departments of companies and government agencies can reduce barriers to market entry (Buttery & Leung, as cited in Wilson & Brennan, 2010). Although guanxi in China is vital for success, genuine guanxi cannot be bought. It is important to create your own guanxi network which is more durable through a trusted friend or go-between (NZMFAT 2012b).

2.5.2 How to establish guanxi.

There are many ways to establish guanxi in China; Pearce and Robinson (2000) suggest through personal introductions, attending social activities or through intermediaries. The most effective and efficient way is to arrange to meet some key people who can make things happen more easily due to their political power and personal influence. According to Pearce and Robinson (2000, p. 33):

In China, information is frequently passed through non-commercial media, a process that is very people-intensive. Thus, to establish guanxi with the

important people, one must be extremely sociable, because the preferred way to meet prospective guanxi partners is through personal introductions. Meeting friends and becoming engaged in their guanxi webs leads to business opportunities.

Getting to know someone requires the opportunity to have time to communicate, which can be achieved through some social activities such as dinners, parties and meetings. Pearce and Robinson (2000, p. 35) point out that “dining with business associates serves a very important function. Chinese like to treat people to extravagant meals as a way to develop guanxi. Many business deals are negotiated and closed at the dinner table”.

In general, being able to understand this typical cultural characteristic can be helpful in establishing guanxi in China and also making a solid foundation for guanxi maintenance and expansion.

2.5.3 How to maintain and expand guanxi.

Guanxi is developed through the exchange of favours, friendship and affection. So gift-giving is a common approach to keep relationships growing. Reciprocating a favour is a potential principle in cultivating a relationship and expanding friendship. Pearce and Robinson (2000) explain that maintaining guanxi is time and energy consuming, and financially costly process. Although gifts are essential, mutual benefits can be built through granting favours, cultivating personal relationships, building trust and nurturing relationships from a long-term perspective. It is easier to do business with those people who are known and trusted; the commitment is understood by unwritten code. Therefore, reciprocal obligations are necessary for the maintenance of relationships.

It is important to develop a personal relationship with the other party that is deeper than mutual tangible benefits. Understanding the needs and priorities of partners can improve and consolidate guanxi via understanding their backgrounds, hobbies, and even their food preferences. Similarly, Yeung and Tung (1996) point out that tendering favours, nurturing long-term mutual benefits, cultivating trust and cultivating personal relationships are the essentially strategies for maintaining the guanxi relationship.

Another way to expand guanxi is through intermediaries who have strong personal relationships in the local setting. Pearce and Robinson (2000) found that “the intermediaries may or may not be directly involved in the business deal but they can facilitate the essential introductions that bring potential partners together. Foreign companies can adopt this tactic of employing intermediaries to expand their guanxi” (p. 34).

Guanxi has been recognised as a typical Chinese characteristic, which reminds all foreign companies of the importance of personal contacts in doing business in China. Personal relationships are the key for business transactions, since Chinese people would like to do business with those they know and trust. They do not like to start negotiations straight away as they prefer to take time to get to know the other party and establish the trustworthiness of the partner, and always look for long-term goals. Therefore, having good guanxi with business partners can enhance the business performance and create more business opportunities, and it can be a form of social investment due to the social activities involved (Pearce & Robinson, 2000).

However, Beverland (2009) points out that guanxi may not always be helpful under some market conditions. While it can be beneficial in the short-term, it may not last long. He recommends that the company should pay more attention to the customers and provide the proper products for them. Thus, while being able to establish a good relationship network is essential to the business success; other factors must also be given attention.

2.6 Factors Contributing to Business Success

Guanxi can be the main factor contributing to business success; however, many other factors cannot be ignored. Deakins, Battist, Perry, and Crick (2013) point out that a business’s success depends on many factors including knowledge of culture, marketing, networks and trusted relationships, regulatory systems and ease of market access, and balancing market size with internal business capacity. Furthermore, attending overseas events, conferences and exhibitions can be approaches to gain contacts and information for effectively establishing overseas sales. Sometimes to overcome the challenges requires a high degree of perseverance. It can take time to understand the local markets.

Deakins et al. (2013, p. 93) emphasize that:

To successfully exploit overseas markets, businesses need to be able to build upon experience and lessons learned. It is important for businesses to be able to absorb lessons from both successful and unsuccessful strategies in overseas markets. Notably growing companies with specific target overseas markets, the support and advice from NZTE had proved to be “significant” and important to their capability to exploit overseas markets. A carefully managed staged approach that depended on the importance of initial contacts, networks and relationships.

According to Deakins et al. (2013), applying the following factors when conducting business can lead to business success:

- Take a long-term view which invests more time and resources in the foreign market.
- Build personal relationships with the local society and maintain them carefully.
- Develop trust which is essential to network building.
- Find the commitment of key personnel.
- Develop the ability to learn lessons from overseas markets and make appropriate responses.
- Have a clear business direction that can drive the commitment of key personnel.
- Be flexible and respond quickly to changes in market conditions, such as a financial crisis.
- Recognise the comparative advantages in foreign markets.

These factors all play an important role in business applications. Different companies may focus on one more than others (Deakins et al., 2013).

2.7 Summary

The literature review has examined theories which are relevant to the research questions. It has identified that the business environment between China and New Zealand has improved after the signing of the FTA. The rapidly growing economy of China has provided abundant opportunities for NZ wineries, although many companies have to overcome the difficulties of the cultural and language differences, the need to develop guanxi relationships, and different marketing structures.

Guanxi represents a fundamental cultural characteristic in China, and having good relationships is better than any negotiation, with personal elements playing a fundamental role. Building strong guanxi with the right people is the key to the attainment of long-term business success in China; the right people can be helpful in communicating with local government officers, and local businessmen and customers. They can find the best approaches to solve problems that emerge during the conducting of business. They can improve a business's financial performance.

The factors that lead to a business's success in China include many aspects; guanxi can play a key role. However, many other factors cannot be ignored, such as flexibility in changing and adjusting the products in order to meet local customers' demand and requirements, along with a company's long-term view, strategy and commitment.

Chapter Three: Research Methodology

3.1 Research Methodology

A successful New Zealand wine company was chosen as a case study. The company was selected from the winners of the HSBC NZ China Trade Association Business Awards 2013. Their wines have gained many gold medals in China and in the world providing further support as a successful wine company. Myers (2013) states that a case study can make an original contribution to knowledge through the use of empirical evidence from real people in real organizations, which is what I do in this study.

According to Yin (2009), a case study investigates current phenomenon on the basis of the situation in which the incident has taken place. Through this research design, the researcher will be able to conduct a detailed and intensive analysis of a single organization. Moreover, the case study is an effective research design due to its flexibility in obtaining information (Bryman & Bell, 2007).

Yin (2009) indicates that a case study can be the most suitable way of answering the questions of “why”, “how” and “when”. Furthermore, a case study’s success may be characterised by some unusual factors which might represent a significant contribution to knowledge and theory building which can be useful for future applications. In addition, the relevance of case studies is extremely high because they question “how” and “why” of the phenomenon (Myers, 2013).

In this study, interview questions were designed to ask respondents about strategies for international business operations, assessing the business environments, the barriers and challenges in the Chinese market, and the factors relating to the business success identified through the literature review. The questions focused on asking about “how” and “why” to help understand the company’s culture and the operations in China. Participants were the director and the managers of the company being studied in this research project. In order to ensure the data’s accuracy and reliability, the interview records were transcribed and coded by using Nvivo10 software which is a fast and useful tool in analysing the data including coding, creating and opening nodes, running queries and deleting project items. Using Nvivo 10 to code the transcripts is easier and faster just by dragging and dropping the transcripts. And the main themes can be formed through analysing and comparing the codes.

3.2 Semi-structured Interviews

An interview is one of the most important data gathering techniques in qualitative research and it is the main channel of obtaining rich data from people in various roles and situations. Myers (2013) states semi-structured interviews can be more flexible and practical than structured interviews and new questions might emerge during the conversation, such improvisation is encouraged.

The semi-structured interviews were conducted face-to-face with the Managing Director and Marketing Manager in the company headquarters office, and with the Brand Manager in China, via internet chatting at different times, based on thirty questions that represented the research relevant issues. These thirty questions can be reviewed in Appendix A.

As the company is a family owned enterprise, the Managing Director said there was no need to interview more people as his brother and his nephew would give the same answers as him.

The first interview took over two hours with the Managing Director who gave very detailed answers about the business operations in China and was very forthcoming in answering all the interview questions. He was open and cooperative, and demonstrated extensive knowledge about international business.

The second interview was conducted with the Marketing Manager at another time, and he was also very responsive in answering all the questions. He focused on the marketing strategies the company applied in the Chinese market and he provided a very good background to the marketing management of the company.

The third interview was with the Brand Manager in China through an internet chat process. He emphasised that *guanxi* in China is definitely a vital step in opening the Chinese market and maintaining the business development. Having *guanxi* in different departments of government such as the Ministries of Commerce, Finance, Taxation, the Industry Commercial Bureau and Customs can facilitate the processing of papers quickly and smoothly in China.

The three interviews were conducted very pleasantly, without any major problems; and with flexible interchange. For example, the question regarding the company's advantages over other competitors was a bit confusing to the Director; however, he described the company's advantages both from NZ wine companies and overseas.

3.3 Data Collection Methods

The empirical data for this research was obtained from interviews, AUT library databases, the company's websites, *NZ Herald* and NZ government websites. Yin (2009) explains that the data collection for a case study involves examination of documentation and archival records, direct observations, participant observations and interviews.

3.4 Data Analysis

According to Myers (2013) thematic analysis is an approach of dealing with data that involves the creation and application of codes to data. Coding an essential technique used in the interpretation of data, and the discussion of similarities and differences between the labels.

Five steps were applied in the data analysis:

Step One: Identification and coding of the initial concepts.

Step Two: Grouping of segments of coded data.

Step Three: Looking for similarities and differences between concepts.

Step Four: Consideration of the theoretical ideas.

Step Five: Construction of the main themes.

After analysis of the case study information, comparable situations were found in the literature to support my findings, then I developed a descriptive framework for organizing the case study. Yin (2009) indicates that the framework is about empirical descriptions of the real life experiences; providing practical examples of problems and solutions, challenges and strategies. These support the more theoretical material. Explanation building occurred in narrative form which reflected some theoretically significant propositions as noted in the research questions above.

3.5 Validity and Reliability

According to Yin (2009), in order to test the internal validity of the case study, the first concern is about the accuracy of the answers to the interview questions. The second is about how the interview questions are related to the research project questions. And the third is my understanding, interpretation and explanation of the data collected. These three points have been identified as being very useful in the research, because the three interviewees gave very clear answers which related to the interview questions. Those

answers were very helpful and useful in understanding the company's business operations in China.

It is important that the interviews were established as being reliable and trustworthy, as Maxwell (1992) maintains that the omission of things that participants in the discussion feel are significant to the account threatens the descriptive validity of that account. Reliability is another type of threat to validity due to the differences in the perspective and purposes of the observers. Unlike descriptive validity, interpretive validity is inherently a matter of inference from the words and actions of participants in the situations examined.

My impression from the interviews, and from the fit of the interview responses to theory and practice from the literature, convinces me that the information provided is reliable and valid.

3.6 Ethical Considerations

Anonymity, privacy, and confidentiality were the three key principles that guided this research project for the protection of participants. As the company is small, sources of information and commentary may be evident from their topic and content.

Participation in this research was voluntary; participants had the right to withdraw at any time prior to the completion of data collection. A consent statement was provided at the beginning of the interview to verify interviewees' consent to participate. Participants had the right not to give answers to questions which she or he regarded as an invasion of privacy or revealed private company information, and to terminate participation in the study up to the time that the interviews were transcribed and integrated into the dissertation manuscript; thereafter the source of the information would not be easily identifiable.

The individual response data collected were kept confidential between the participant and the researcher. Only the researcher and the supervisor had access to the collected information. Participants' individual response data was not released to their managers and participants were not identified by name. Only summaries and analyses of data were used in the research report and provided to their managers, with no reference to participants individually. Names were not recorded or associated with data other than within the private confines of the researcher and supervisors' work areas, and the secure university archives.

It was important to be respectful and listen to participants during the interview, as their answers were affected by the interview process, and confidentiality and security of data were ensured. Authority was obtained to gather data from company website and AUT. AUT Ethics Committee approval was required before interview.

Chapter Four: Findings

Four themes emerged from the findings. Firstly, the company entered the Chinese market driven by the opportunity perceived as stemming from the very large population, the rapid increase in high income groups, and the changing perceptions of drinking grape wine. Secondly, the company has gone through four stages of market entry which represented the process of their business relationship development. They have not only endured a failure of distribution but also have entered into an exciting phase. Their persistence could be one of the reasons for their success. Thirdly, the company has established very strong guanxi relationships in the Chinese market including multiple distributors and different channels for sales after eight years of doing business in China. Finally, this research has identified the important factors in achieving business success from many aspects; employing a local manager in China was the biggest factor in the company achieving its goals. In addition, the company's long term vision, competitive advantages, flexibility and full use of resources all played significant functions in the business success. Each of these themes is described in more detail in the next sections.

4.1 Theme One: the Huge Wine Market in China

China has developed into one of the world's fastest growing economies by becoming increasingly outward-looking and market-driven. It offers huge opportunities for New Zealand business, particularly in the segments where New Zealand has competitive advantages, high value products such as wine and dairy products. Safe, high quality products are welcomed by Chinese consumers. As incomes rise, Chinese people are looking for improved lifestyles and they can pay more for better products. In addition, New Zealand has a good reputation for supplying superior food products and the image of being clean and green has enhanced the reputation of the products (NZTE n.d. b). Many potential opportunities can be explored in the Chinese market, as due to the change in drinking culture, consumption of imported wine has been increased rapidly recently, although it still represents a small proportion of the total drinks market.

4.1.1 Population.

China is a country with a population of 1.35 billion. According to NZMFAT (2012b) China has over half of 1.35 billion populations now live in urban areas. Compared to China, New Zealand's population is very small. It is hard to imagine how big China is for those people who have never been to there, since many cities

have populations larger than the whole of New Zealand's. The Managing Director stated:

The population of China is huge. A million people are nothing. But the point is that everyone knows Beijing and Shanghai –but there's other cities that have 3, 4, 5, 6 million people, like nothing – that's more than all of the New Zealand population, and there are cities all round the place like that. If you think of Auckland City here with a couple of million people, and in China there are cities like that everywhere. There is scope for business obviously in China since it is the largest growing economy in the world and it's growing so rapidly. Everything is changing such as culture, education habits and politics.

With the recognition of the case study company's brand increasing in China, sales can be increased rapidly due to the population size. If everyone wants to buy the product, the demand will be huge.

4.1.2 Purchasing power increased.

China has become the second-largest economy in the world. According to NZMFAT (2012 b), the China-income growth forecast states that from 2010 to 2015 Chinese people's income demographics will show population movement from lower income brackets to higher. Those with an income of 0-55K RMB will decrease from 38 per cent to 25 per cent and income of 55K RMB -100K RMB decrease from 54 per cent to 43 per cent; conversely, incomes of between 100-200 K RMB will increase from six per cent to 28 per cent, and 200+ K RMB incomes increase from two per cent to four per cent. These figures show that higher incomes are forecast to increase rapidly, which means the purchasing power is growing. As one participant stated:

There is a really strong development of the middle class in China, they are looking for ways to spend their money and they are also looking to the West, want to do what the Westerners are doing.

4.1.3 Drinking perception.

With the increasing of income, the demand for foreign wines is growing rapidly due to many reasons; firstly, foreign cultural influences have penetrated social life through mechanisms such as television, DVDs, movies and internet. Secondly,

drinking red wine is perceived as being good for health, because it is said to be good for the heart. Thirdly, it is fashionable as part of social activities for young people to go to pubs or bars for social activities rather than sitting at home watching television. Fourthly, the demand for Western food has increased because Chinese people trust imported products more than domestic products due to the many toxicity scandals that have occurred recently in China. Thus, international brands are becoming popular with high income consumers. For example; the Managing Director described:

I think what happens in economies where the standard of living starts to rise and people become more educated and they travel more and television becomes available and you can see more things overseas, things that exist in other countries – there's an awareness that starts to build up and I think this awareness that wine is a sort of fashionable drink to consume within the world. I'm not talking about China; I'm talking about other countries. Then these countries like China which might have been quite low in wine consumption and being more used to drinking either beer or wines made from rice or whatever, suddenly they become aware of that and then it's a slow thing but it builds up and builds up and builds up, and I think now that China's right into that, that New Zealand people were and probably 25-30 years ago getting this sort of awareness of different wine styles.

4.2 Theme Two: Four Stages of Market Entry

The marketing manager of the company described that traditionally setting up distribution in new countries usually has a clear strategy with desired outcomes. This is generally built around choosing the right distributors to work with (in term of their capability, motivation, etc.) and then supporting them appropriately with an agreed plan for growth. The company would then create a country-specific marketing plan that covers pricing, products, distribution channels and promotional programs. These plans serve to support, reinforce and clarify the interaction with the distributor. However, their experiences with mainland China in the early years were hit and miss. The company has gone through four stages in ascertaining the best strategy and distribution for the Chinese market.

4.2.1 Stage One.

The company could sell wine but it was very difficult to build long term business through which they could establish a strategy or marketing plan, since the customers would come and go and they were uncertain whether there would be repeat orders. The company also had a poor understanding of where the wines were going once they were in the market (China has various sales channels, some of which were new to them; for example Government gifting and banquet wine). More importantly, language and cultural differences made it difficult and New Zealand wine had not gained a sound widespread reputation in the market at this stage.

4.2.2 Stage Two.

As the years went on and the wine market continued to develop (including an increased interest in NZ wine) the company became exposed to some more traditional distribution models. In 2011, they signed the first exclusive distribution agreement with a company based in Shanghai and with offices spread nationwide. With this agreement came promises of large order volumes, but more importantly at the time for the company, a distribution model they were familiar with.

With this agreement signed, they started to accelerate their involvement in the market and hired an in-market Brand Manager (part time initially) to ensure they had a Chinese-speaking team member to liaise with the distributor and their customers. They also started to put more efforts into their Chinese-specific marketing, and ensure the correct brand names were registered and suitable marketing material was created.

As it turned out, they learnt fairly quickly that China is a very large market to have only one distributor. Although orders were coming through and their wine was starting to build a strong brand presence in parts of China, the promised order numbers were not being achieved.

Meanwhile in the background, the number of direct enquires for people seeking NZ wine really began to rise. These were coming directly to the winery in Auckland as well as via the Brand Manager in China. Buyers were actively seeking them out. It was the time to capitalise on these opportunities which led them into stage three.

4.2.3 Stage three

The interest in the company's brand (from direct buyers) was growing rapidly in 2012, but they were hesitant to walk away from the first distributor who was not able to reach promised numbers. To operate within their exclusive agreement, the company created secondary brands which they were able to sell to other buyers in China. The advantage of this was that they could get very wide distribution without restriction, and in some cases these labels would be exclusive for that buyer which was a key selling point. It also meant that they were not turning people away and they could build a long list of new business contacts.

After adopting this strategy, sales really started to increase and the potential of the Chinese market became much more realisable. This was a very exciting phase and the company knew they were closer to where they needed to be, but there was one major problem with this model; that is, their primary brand was not growing at the same rate as their overall case sales. Wine supply also became an issue as their red wine sales had significantly increased.

4.2.4 Stage Four.

By early 2013, the company had spent over two years dealing exclusively with the first distributor (with their brand). With their new network of buyers spread throughout China, they were confident that they could convert them from selling the second label brands they had provided them with to become an official agent for the company in mainland China. They were still very keen on keeping the first distributor as an agent and worked through a plan with them in order to keep them as their agent, but not on an exclusive basis (part of this was to maintain some of their brand range as exclusive to them). So now their distribution model is based on having multiple agents spread throughout mainland China. The focus is the first brand (although some second label business does still exist and will continue as required). The company is now in a position to work more closely with each of their partners and develop a suitable strategy with each of them, for example to focus on different sales channels based in different provinces, so each strategy and marketing plan will be unique to each of them.

4.3 Theme Three: Relationship Network Building

4.3.1 The cultural difference.

Understanding the Chinese culture is essential in order to do business in China. Many foreigners have recognized that language is the largest challenge in China. Without knowing Chinese language, it is more difficult than other western countries. For example, the Managing Director stated:

If you go into Germany, there's a German culture but there's still a western culture which you understand and there's a lot of English spoken, so it's not difficult to speak and write to people. But in China, getting down into the mainstream Chinese way of life, the amount of English spoken would be very small in percentage except an international hotel level or something like that. You go to the top international hotel and the Food and Beverage Manager is Chinese, absolutely fluent in English because it's probably his number one language, and yet he's working in China. And in fact I asked a couple of them that and said – Why did you come back here when you'd emigrated, your family had emigrated? And they said – Well, there's so much potential to do well in the economy.

The Marketing Manager said:

I suppose you take advice and usually from the Trade Development Board that are working in China. Then most of the people – I'm just thinking the time that I went there, and the people that you were introduced to and business-wise, they all spoke English, and they took us to things and to clubs and restaurants and things. But the language was never a problem because they always spoke English. But that's not too much help if you want to go out and do the work yourself. You have to then speak the language and that's why we use this chap that we employed, the chap there.

Many foreigners living in China struggle with the language, so the approach to overcome this obstacle is either to learn Chinese or to have a local people who can speak for you. Although English is a compulsory subject in schools, only a few people can apply it in practice, such as working with foreigners especially in urban centres. In addition to the Chinese language, guanxi relationships in China are also very the complicated. For example; the Managing Director said:

Business in China appears to me to work a lot around relationships of who knows who and it's not as straight forward as it is if you go to the United

States or to Australia or something. It's more – in those sorts of countries, in the Western sort of countries, business is sort of straighter forward. You've either got the product and the price is right. But in China, it appears to us, I mean, I might not be correct, but it appears to us there's a lot more value on knowing the right people and the relationships that you have to build up, it takes a lot longer to build those relationships. It might also seem more difficult to us because of the big language difference. The relationships I think – put it this way. If you dealt with a supermarket in say Australia or in England, the relationship counts for very little. What counts is the product you've got and the price you can supply it for, and not a lot else, and the reputation of the product, the demand for it. But in China, you know, it appears to me the relationship is more important than that. You really have to know the people, get to know them, they have to get to trust you and then the business builds. That's my perception. I don't know what you think but I think it just takes a bit longer.

These passages express that the guanxi relationship network is complicated but important. It is clear that guanxi is helpful and useful for smooth and effective business operations, if organizations can pay more attention to the construction and nurturing of guanxi relationships. Once having built good relationships, it will bring a number of benefits. The benefits arise from increased sales and the degree of the reputation of a brand. Therefore, to employ a local manager definitely can overcome many obstacles and improve relationships with all the customers and distributors, as a local manager knows the culture better than foreigners. For example, the Brand Manager in China stated:

In China, guanxi network is built on trust and accumulated gradually. It needs nurturing and maintaining intensively. Guanxi not only refers to the relationship network but also link to the “face, “renqing (affection). Being friends first, then talk business. Personal relationships can last longer than business. Never forget ‘face’ which represents a person's social position and power. Giving face should be considered all the time because it connects with guanxi which means I give you a ‘face’ and you will owe me a renqing (affection). For example, today I buy your product, and you should buy mine or do me a favour next time. This is one way to maintain the relationship.

There is a big difference between Western and Chinese cultures; in Western culture, business is usually conducted by employing three steps: first, start with the introduction and exhibition of products; followed by the negotiation between two parties; finally, sign the contracts and celebrate the deal. However, for Chinese it is completely opposite. They do not start business negotiations straightway; rather, they show foreign investors around well-known and places of interest in the country; take them to dine in luxury restaurants, and give expensive gifts. They do not talk about business until they have built the trust with the partners, so they would like to know more about the families, companies and their friends. This behaviour is influenced and cultivated by the traditional Chinese culture of the *guanxi* relationship which has been in Chinese culture for over two thousand years. If you do not have a strong and good relationship with Chinese partners, it is very hard to continue doing business. There is a Chinese saying “be friends first, then talk businesses.” This means that for Chinese, *guanxi* maintenance is more significant than establishing a business relationship, as they expect cooperation may follow even if they cannot reach an initial agreement. In their perception of maintaining relationships may provide second opportunity to conduct business, even though it is time-consuming and expensive.

4.3.2 Multiple distributors.

China has been a different country to the rest of the company’s export markets, where they just have one distributor; thus there is only one relationship between the company and the distributor. In countries other than China the company sells the wine to the distributor and they in turn sell it to the restaurants and the liquor stores. The distributor does all the work and the company just supports them. However, in China, there are many channels for the company to target. For example; the Marketing Manager said:

We’re not a big company, and so for us to get a distributor that would cover all of China, is very difficult, and if they did cover all of China we wouldn’t be able to supply it anyway. So what we actually found is that we’ve been better off to get different outlets and different people selling in different areas of the country. So you might get people come in from – they might own a chain of restaurants in a city, and they’ll buy wine off us directly and sell it all through their restaurants. And another person might supply wine to the government for something, and that might be another outlet, and we

find that that seems to work better for us in China than trying to get a distributor to market wine for us. We have separate plan for their distributors. Such as traditional groceries, five star hotels and resorts. Some of buyers just for one channel, like providing the wine into functions for the government.

What the company has learnt is to keep adjusting the distribution model and to discover what works. Having several distributors around China with different models has been significant, as it has improved sales in China and increased the reputation of the brand. In order to have good relationships, the company tries not to have two distributors in the same province. The company helps distributors to attend and host trade shows, tastings and events; distributors all sell to different people. At present, the company has quite different partnerships with the various distributors, and they're always looking to add to those and grow their existing partners' business. Now the company has six distributors in different provinces of China.

4.3.3 Different channels for conducting sales.

With the promotion of the company's wine in China, the company has established relationships with people from different channels. And the company has done something quite different in China, as compared to what they have done in other countries; such as the use of direct buyers, go-between people and Chinese living in Auckland. For example, as the Marketing Manager reported:

The restaurant businesses – some people in some cities apparently might have restaurants where they can buy a container of wine themselves and just sell the container full of 1,000 cases of wine, just at their own restaurant, and they do. We've also got a chap here in New Zealand who works on – he sells goods, dairy products and meat and stuff into China and he makes contacts with people that he brings to us, and that might own restaurants or clubs or whatever, and through them we've found that we're better off having someone in this area and someone in that area and someone in this area, and we're better off than trying to just work it all out like a traditional market. Because of the business is actually quite big. Being in Auckland, the company has an advantage because there's a lot of Chinese living in Auckland that have their family and relationships in China, and a lot of them have visited their vineyard here and it's a market

that you can build your brand here and they take back the good words charmer.

When people who own a chain of restaurants in a city buy wine from the company directly and sell it all through their restaurants, it can save substantial costs and make large profits, compared to buying from a wine distributor. Another channel is to supply wine to the government for banquets; this is a new channel which cannot be found in other countries. Actually, this is an important channel and the company has to focus on that. However, it might involve some risks if the banquets are forbidden.

People might not think of Chinese in Auckland as being useful but their influence is actually greater than may be assumed. As China is large, the influence of their guanxi can be huge. They can communicate with their friends in China in a widespread fashion. This is due to the business they have done with China from within New Zealand.

4.4 Theme Four: Factors Which Led to Success

The company has over ten years' experience in Hong Kong which was the spring board for developing their business in mainland China, which means their wine style and marketing messages would be acceptable in other Asian markets. They have set up a long term goal for doing business in China. And they obey the rule of "Good service, the right product, the right price." The Managing Manager stated:

You have a quality product at a good price and you give good service, you have to do what you say. If you say you can deliver it at such a time, you have to make sure you do, and I think that China's no different to any other market. Good service, the right product, the right price.

You don't need to sell everything in the first year; you need to build up for long term business for 20 years. Thinking the big picture rather than short term gain is their culture. For an old company nearly 100 years old, they do everything always with a long-term vision.

4.4.1 Man on the ground.

To overcome the barriers in China, one of the strategies has been to employ a local manager in China. It is the most significant measure that the company has taken. Since they employed the local manager, sales increased rapidly. This is

because so much of business is done by building relationships and it was important to have someone who understood the culture to work on that side and just to give them guidance. Having a local on your side makes you very aware of the influence of relationships (Philp, 2013). For example the Managing of Director said:

I think it's probably – I don't know whether it's more important there than other countries, because it's probably important in other countries too, because it probably happens without you realising it because if it's an English-speaking country then you don't think it's anything special because you get to know someone and business develops from there. But I think in China it's very important and the only way we can really do that is by having Chinese people on the ground, or employing them from here which we haven't done, but we've employed one there.

This passage shows the importance of the local manager plays in conducting business. He basically handles virtually all their business locally, including liaising with all the distributors and customers. For example, educating the customers to ensure they understand how to best look after and handle the wine, including using a thermo-lined shipping container because China can get very hot in summer. In addition to these relationships, he has to deal with other relationships including with Government officials, NZTE staff and the NZ company staff. He is called the “man on the ground” because the company has to rely on him to increase the wine sales and maintain the relationships in China.

4.4.2 Flexibility.

Being flexible and patient can be very important for companies doing business in China due to the large market. China has been a different country to the rest of the case study company's export markets, where they just have one distributor. What they have learned is to keep adjusting the distribution model and finding out what works. So there has been flexibility with their distribution strategies and the products themselves. For example, the Marketing Manager stated:

I think what's been important for us is, once again, that flexibility to keep adjusting the distribution model and finding out what works. The products are obviously very important. There's the wine in the bottle, but there's also the packaging. We've learnt that in China, how the product looks is just as important as how it tastes. So you have to be very smart with your

packaging. One example of that is they request cork instead of screw caps, so, you know, the closure in the bottles. Like this one is a screw cap, but the more traditional one is the cork, and the Chinese market has been exposed to French wine which is all using cork, so they think cork is the best. So a couple of our products, we've had to change and use cork, so it looks more expensive to the Chinese market, so you have to be flexible with the packaging. Style of the wine is really important. We have red and white wine. We've found red wine's been in the most demand, but we're also trying to sell the white wine and we think the future long term, could be with white wine. Especially the younger women drinkers in China coming through in their kind of late 20's age group, a bit of money, living in the cities – we think they will drink more white wine because it'll become more fashionable. Like the Western culture of drinking wine, when you have a meal, particularly people that have travelled. People who live in other countries, Western countries, then go back to home in China, they've learnt the new culture of drinking wine. So that'll be our target market for people who understand wine. So there's flexibility with your distribution and there's the products themselves. The other thing we've thought of as being important is the Chinese branding, so we created a Chinese name for the wine.

The above quote has identified that the company is very flexible in changing their plans and strategies in order to fit the Chinese market. Not only that; the company is very flexible in modifying the distribution models, for example the Managing Director said:

What we found differently in China compared to other markets is that in most other markets we try to get a distributor for the total market, and that's what we started to do with China, but the market was so big and we found that we were better off to get different distributors in different provinces.

In order to promote the brand in China, the company has their website translated into Chinese, and it is much easier for Chinese to understand the products. They have created a Chinese brand name and had the name registered. These actions have improved the name in China and increased sales.

4.4.3 Competitive advantages.

Being a family owned enterprise has some significant advantages due to their wine experience, and strong financial resources. The Managing Director said:

I suppose all we can do, and that's what we endeavour to do, is supply high quality wine at a fair price in comparison to our competitors. Hopefully that when people try our wine against our competitors' wines, within the same price range, that our wine comes out better. But all we can do is give good service, visit the market, see what the market wants and supply them what they want at a fair price.

I think one lesson I've learned, and I think it gives us an advantage, is that being in Auckland we do get a lot of enquiries from people wanting to buy our wine for China, and I could easily just say no to them all because I get so many, but I take the time to listen to everyone's story and see what their plan is for selling the wine in China. Work out if they're suitable to partner. I think I could easily just say no to a lot of people, because I get nearly a call every week – Do you sell your wine to China? And some people are just interested but they don't want to order, they just want to find out more information. So I have to be very patient and listen to everyone and eventually, one of them will be a very good customer. So if I listen to 10 peoples' request to export wine to China, maybe one of them will be very good, but maybe nine won't even place one order. But I still take the time to listen to all 10 and it's quite different because no other countries were getting requests so regularly to sell wine, so I think that gives us an advantage, because I'm willing to hear everybody's story to see if they're suitable.

In addition, their wines score very well in competitions against other companies and third party endorsements are very valuable in the Chinese market. Thirdly, the company prides itself in the quality of their products; they always focus on quality in everything right through from the vineyards to the wine making to the packaging, to the systems they have in place. Fourthly, New Zealand is politically a stable country. It has a good reputation for supplying good food products particularly in the dairy, wine, meat and wool industries. Moreover, New Zealand's unique climate produces a certain style of wine which has a lot of flavour, a good aroma and people appreciate them. This is

demonstrated in wine competitions in Europe and the United States, otherwise internationally, and in China.

It has been important to be patient in listening to the customers who might bring huge opportunities for the company. For example; the Marketing Manager described:

That's what I would think because it costs a lot of money to go there and unless you've got a very good reputation and people want your wine and come and search it out, it's going to cost a lot to go there, and you have to visit the market, you have to go there, you have to build the relationships. You can't expect it to happen by itself. You have to do the work. And every time you go there it probably costs you \$10,000 or \$20,000, so you've got to have a certain amount of business to fund that. But we're still better to have a number of companies do well. You're better off to go into a wine store and have 10 New Zealand wines on the shelf than one, because at least then you've got 10 and people can see it. If you put one there, no-one would even notice it.

The business has survived long term because of the high quality product at a reasonable price and good service. The Marketing Manager said:

The Managing Director said

The strategy that we use in China, and it's not necessarily related to China, but it's our strategy here of producing wine that represents good value and high quality. Against our competitors within the country, our competitive advantage is that we've been in it a long time, we've got a lot of our own vineyards, we know what we're doing and as I say, we've been in it for 97 years, and we're a company that's got quite good funding. We're not heavily in debt so that we can actually devote time to travel to go to the markets, to do everything, because our company is large enough to afford to be able to do it. Where our difficulty is, is that you get the big international companies, the big wine companies in New Zealand have just got more resource, more money, more people to put into it, but we put up with that. We've done it for nearly 100 years and we're still doing it.

These passages demonstrate that the company has a valuable culture of doing business which can gain an advantage in global competition. And they also have the following advantages: Firstly, being a family owned business is one of the biggest advantages when facing their competitors within the country, as they have

a lot of experience in making wine. And they have got good financial resources to expand their vineyards. Secondly, they have gained a good reputation from success in wine competitions. For example, they have won many gold medals at the Chinese Wine Awards, and this year they won New Zealand Producer of the Year in NZ for wine, so it was an impressive trophy, in that they can tell their customers they are the best wine producers in New Zealand.

They are confident about their product, which is in the top ten of sales in New Zealand and top fifty in the world. The Managing Director said:

They are working hard and highly committed to their partners. The Managing Director described:

We're probably one of the few family-owned companies that own most of our vineyards ourselves. We own about 60 per cent of our vineyards from our own company-owned vineyards – the rest from growers. And also, we're not alone in this, but a lot of the growers either come from Hawkes Bay or they come from Marlborough or the South Island, and we actually have vineyards in both, and we're not alone, others do too, but that is a strength that we've got more to offer than if we were just in one of the regions. We're a family owned business, we have stories, a lot of experience in making wine, so we always tell the people in the international markets that if you come to the company, this year, next year, the year after, you most likely will be speaking to the same person that you were speaking to before. If you get into a big corporate company, virtually every time you come there'd be someone different there because people change and they come and they go. But in a family company, it's different.

You sort of need a number of companies to do well in the market so that people understand New Zealand wine. For instance, we're too small to be able to sort of get New Zealand wine known just through our wines. So we're probably better off that maybe seven or eight or 10 companies do well, and we're one of them. And I think we're better off. But in terms of 700, I think you'd probably find that 600 of those will be too small to put the effort into the company, and all the business that will - 95 per cent of the business will be from that top 100, top 50 companies would probably be the ones that will do the bulk of the business there. I would say that 650 would struggle.

4.4.4 Full use of resources.

Fully using the resources either in New Zealand or in China can be very helpful when entering the new market. For the company, the first thing is to understand the Chinese market and find right distributors. Thus, attending all relevant events can be a shortcut to gain information and find business partners. Company employees attended many trade shows, wine fairs and wine tastings run by New Zealand Wine Growers, New Zealand Trade and Enterprise and the New Zealand Trade Development Board in China. And they also attended numerous Chinese business seminars held in Auckland to gain more information about Chinese market. The respondents stated:

The way we normally find a distributor in any country, and China's no different, is that the New Zealand Wine Growers Board here sets up trade shows and go to wine fairs and things, and then we go along with them, and then pour your wine to people that come in and just take sort of notes of people and hope that you make contacts for business. That's one way. And the other way is the Trade Development Board, the New Zealand Trade Development Board, the government board here that have offices in countries overseas, trying to develop markets for New Zealand wine, and we use them to give us contacts.

Attending these events is very useful, because they're there. They're working in the markets. They might have an office in Beijing and they know who sells wine, who's supplying the hotels and things like that. I mean, we don't of course, so they then give you the information. Speaking with many other wine companies for advice is also useful as they can find what is working for them in the market. Attending New Zealand wine events is absolutely important, because they always talk about wines and how to market it.

Some private events are also held by their buyers for their customers, and the company always attends and supports them, as these buyers send their wines to influential magazines and wine competitions to win awards so their wines become more famous in China.

The company uses not only these mechanisms; it has also fully used Chinese social media such as Chinese Weibo which is a very powerful influence in China,

and Facebook to promote the wine. Their most important strategy is their website is also fully in Chinese. The second most important is the use of online media; using a Weibo account to promote their wines.

In summary, the case study findings support the findings of the literature review reported in chapter two, which describes the motivation of exporting wine to China because of the large potential opportunities in China due to the huge population, recent rapid economic growth and the positive perception of drinking imported wines. The market entry had been challenging for the case study company, due to a lacking of understanding of the Chinese markets and failing to have good guanxi relationship networks. After experiencing a few episodes of failure of distributors, the company has learned many lessons from its experiences and their persistence and flexibility finally led to business success. The most important thing is that the company now has established the right distributors and has good guanxi relationships with them. Meanwhile, the 'man on the ground' is playing a significant role in establishing and maintaining guanxi with all the distributors and relevant government departments. In addition, the company never missed attending any wine trade events which helped them gain the knowledge of the Chinese market.

Chapter Five: Discussion

In terms of the research questions, the findings of this research have provided answers towards the following aspects. First, be persistent in tackling difficult situations and the learn lessons from those experiences. Second, be flexible in adjusting and modifying business strategies and models. Third, employing a local manager is one of the key contributors to business success, as he plays a significant role in helping the company overcome cultural barriers and helps to improve the business operations effectively through establishing and maintaining strong relationship networks. Fourth, some valuable lessons have been identified from this research which can be shared with other companies. Each of these aspects is described in more detail in the next sections.

Although the FTA between NZ and China has provided the convenience in exporting and importing, and the NZ government also supports the businesses going overseas. In fact, from this research, many small – medium NZ companies could not succeed in the China market due to many reasons such as finance, relationship developing and cultural difference. The company in this case has been successful through mainly relying on the following characters

5.1 Be Persistent

The business success of the company today should be attributed to their persistence and perseverance. The first few years of the company's businesses in China were slow since they had encountered many difficulties. Their experiences with mainland China in the early years were hit and miss. In the first stage they found it hard to establish long term business goals as they did not understand the Chinese market. They also did not have much *guanxi* which has been identified as a key for doing business in China. Doing business in China is not just about establishing a business relationship between the sellers and the buyers. It is more about creating personal connections based on trust, saving face, reciprocity and commitment to each other. But it also is concerned with establishing cohesive relationships with government and business associates.

Furthermore, finding the right distributor is one of the biggest issues in China. It is not only costly financially, but is also time consuming. For example, the company found that some distributors overstated their capabilities in delivering the wines and that actually they could not deliver on their commitments. Thus, the company found it

difficult to determine how much of what distributors were saying was true (Philp, 2013). Not only this, the company had to spend substantial amounts of money on banquets to meet some key people who might be beneficial for business relationships, which is the most common way to build relationships in China, along with gift-giving. Some distributors asked the company to send containers of wine before setting up the relationships, and the result was not satisfactory as the distributors could not deliver on their commitments. However, although the market was difficult to gain access to, the company did not give up.

After a couple of false starts with distributors who failed to deliver on their commitments, the company have learned valuable lessons about working with the right people and using guanxi networks to find a suitable business candidates for the company. They started attending as many wine trade and tasting fairs in China as possible, although these activities have cost considerably more to set up than any other markets; for example, a small booth costs around \$6,500 for three days. The company has learned that China is a big country; it is more complex than any other markets because it involves strategies such as banqueting and gift giving. It requires lot of money, time and hard work. The most valuable lessons gained by the company were about the importance of personal relationships and working with right people. These can be significant keys for business success. Their perseverance started showing benefits, as they signed an agreement with a distributor called Lucky Horse in 2011 (NZMFAT 2012a).

Being able to overcome the barriers in China has helped the company establish good relationships and make a good foundation for the future of their business.

5.2 Be Flexible

Flexibility has played an important role in conducting business in China. With the growth of their knowledge of the China market, the company has learned that China has more than one channel in which to market such as the gifting and government markets, luxury hotels and resorts. Gift-giving is part of the reciprocal approach of guanxi. The Chinese give a considerable number of gifts and wine is seen as a valuable gift. Wine is the best option for gifts, as the meaning can be interpreted as friendship lasting forever, as the Chinese character wine sounds like “forever”. This is because China has many festivals in a year. The government market concerns the wine that government officials

buy for banqueting. There are many conferences held each year by official departments. Being able to understand these customs has helped the company improve and adjust their market strategies.

The creation of a second brand was significant in the business strategy, as the company had another opportunity to expand the guanxi network. If they did not take this action, they would not have developed six distributors in six different provinces today. The company found China too vast to just have one distributor. The provincial operators are smaller, which suits New Zealand businesses; their relative size is closer to theirs so they receive more focus and attention. But it very hard to build up because it involves maintaining more relationships, but it means you are not as exposed if a distributor drops you. Having different distributors in different provinces has increased the sale of wine, since the demand for wine is growing at a massive rate (Philp, 2013). Being able to change can be important for business success.

Thus it was a significant phase after the company created the second brand for the other distributors in different provinces. Having different plans and models for different distributors is a successful approach in gaining market entry. Because each distributor has their guanxi network in their province, the sales channels are different. The influence of guanxi thus plays a fundamental role; without strong guanxi, you cannot become a successful distributor. You must have very strong guanxi in different government departments; their power can bring clients and customers, since the guanxi network is about reciprocity, saving face and affection. Once key person are identified in business, the door to sales can be opened. Although they have developed six distributors in different provinces, the company has retained the first distributor as they could build a long list of new relationships. It is a smart action to develop alternative relationships where they could swap distributors without wasting of time. This is an exciting stage as the sales started to move and they can see the potential of the China market became much clearer to them.

5.3 Right Distributor

Discussion of the case study company's success should mention the distributor they found in 2011. This distributor has changed the company's situation. When things change in China, they change very quickly. Three years ago China was the 20th largest market of the company; it is now the third (Philp, 2013).

The distributor, Lucky Horse Wine Ltd in Shanghai China, is part of the Lucky Horse Group which has a very strong powerful influence in China. The company has set up more than 2,000 offices and tens of thousands of terminal sale points around the whole country. They have set up four marketing centers in Southern, Eastern, Western and Northern China. The company had signed agreements with more than 30 major wine producing countries. It has gathered considerable resources with powerful strengths and advantages and is the exclusive distributor in China (Lucky Horse's Group, n. d.).

A distributor having tens of thousands of sale points can be the reason for the rapid growth of the wine market in China. It is said "It's been a five or six year overnight success." The company benefited immensely from them. It is a good start to have this distributor which has strong network in China.

Having been able to spend considerable time, money and effort on the distributor can be a shortcut to success, as the case study company has understood that the distributor can open the guanxi gate for the future. Thus, they always visit China two to three times a year and attend all trade fairs, and have supported functions with the distributors and paid for dinners to show their wines to customers. Along with the distributors, they have actually put money into funding dinners where they invite all their good customers to try their wines, and also they promote the product in New Zealand to Chinese that have come from China.

5.4 Man on the Ground

The company has employed a local manager in China who has played a significant role in the business success. After experiencing the failure of using the wrong distributors and other difficulties, the company has recognised the importance of having a local man in China. This is because the local man can not only speak to the local people and show them the wine, but also understands the local culture and already has a guanxi network. He can communicate with all the relevant relationship partners in China and is able to deal with guanxi with different government department regarding daily activities. For example, having guanxi in the Department of Customs can release the wine quickly and reduce the cost of transportation; otherwise it would cost more if the wine is not released. Furthermore, having employed the man in China means he can take them to relevant events in China and address any questions or concerns they may have. The

research participants found that the extra business training about dealing with the culture of China had been very useful. Thus, having employed the local Manager in China has increased the volume of sales and improved the relationship with different distributors, consumers and government departments.

5.5 The Drivers of their Success

In summary, the case study company is a family owned enterprise with a lot of experience in making wine and no debts; therefore they have enough funds to expand their vineyards. The reputation of their wine is also considerable and they have won many medals in international wine competitions. They can provide world class New Zealand wine of high quality. Their philosophy is to have vineyards in the right regions on superior sites, and cultivating the right varieties on those superior sites. The company has seen the potential of the market in China, with a rapid growth of wine sales and they are confident they can increase the distribution from six provinces to twelve in the future. They have recognized that the local manager is a key driver for the business, as he has played a key role in communicating with the local customers, distributors, and government officials. And he has been very useful in providing extra business training about dealing with the culture of China.

5.6 Valuable Lessons from China

This chapter has discussed the important factors that led to business success of the case study company and it also illustrated the valuable lessons which the company had learned from China as listed below:

- Be patient when conducting business because of the complexity of China's markets. It will be time-consuming, cost money and require hard work. Be flexible in changing the business plan and modifying the models in order to meet the consumers' needs.
- In China, it is important to have a good relationship with key people, find a right people can lead to business success, so be aware that trust lies at the core of all relationships and it is critical given guanxi is regarded as the key to unlocking profitable and highly productive business dealings.
- Be committed to business partners with good service, and the right products and price. Make sure you keep any promises you made such as delivering the products on time. Demonstrate a strong commitment to long-term relationships by frequently visiting China to get to closer to business partners and customers.

- Cultural differences have caused many obstacles for foreign investors. To overcome these, one way is to employ a local person who can speak the language and understand Chinese culture. It is especially important for that person to have a local guanxi established and maintained with customers and government officers. That person can also support the company staff in learning about Chinese culture and answer any questions.
- China is a big country and for a small company, it is not easy to have a distributor that covers all of China, as the company may not be able to supply it with sufficient product, so it is better off to get different outlets and people selling in a range of areas of the country.
- A company which cannot afford to invest significant time and resources should not attempt to take on China. China is more complex than any other market they have been involved with, such as bull-purchase for gifting and banqueting.

5.7 Limitations of the Study

Having discussed the factors that led to business success, the findings have reflected the similarities with previous research about doing business in China. However, the limitation of this research can be viewed as follows: Firstly, the data is taken from a small number of interviews and the library database which might be too narrow. Secondly, the family owned company might have some different perceptions when compared with large companies as regarding the culture and the value, for example, of having a local manager who is helpful for gaining market entry to China. Thirdly, the single case study is based on the wine industry which might not apply to other industries. For future research, it would be an improvement to choose more diverse companies which would provide a broader evidence base.

Chapter Six: Conclusion

The Chinese wine market is new for New Zealand wine companies, so there are huge opportunities there. How can a company enter the Chinese market successfully? From this research, developing relationships has been identified as one of the most significant challenges in gaining market entry. In China, everything involves personal relationships; if you know people in highly important positions, things can be done easily, as their power and influence can be vital in expanding networks and be useful for enlarging areas of business. There is no doubt that the Chinese traditional culture of *guanxi* is rooted deeply in people's activities and lives.

China has huge potential wine market as the population but the traditional drinking culture in China has occupied much of the market. Although NZ wine has very good reputation, the high price of wine cannot be accepted by most of Chinese, and the competition of the international wine industry is strong. Therefore it takes time and money to recognize the brand and maintain the relationship with the distributors and customers.

Similar to the findings of Westhead, Wright and Ucbasaran (2002) for micro and small firms in the UK, the winery in this study followed the resource based model of direct exporting, minimising expenditure of scarce resources, and attempting to minimise risk by personal involvement with distributors in China. As they have demonstrated in their business development in New Zealand, the company has demonstrated management skills in entering and developing the appropriate Chinese markets for their wines, further indicating in acquisition and utilisation of knowledge to grow the business.

The interviewees have provided their perception of China, which emerged as being very similar to the other findings of literature review. The study participants had a similar motivation for entering the Chinese market due to the huge population of China. However the Chinese population has a variety of cultures in different provinces, and language, cultural differences, and the importance of establishing and maintaining complicated relationships established and maintained have been recognized as the most challenging things to deal with in China, as they involve gift-giving, banquets, reciprocity of favours, 'face' and 'renqing'. Without understanding these factors,

business cannot be conducted smoothly and it can lead to business failure. Establishing a business in China needs time, money and effort. Having the right business partners can be more effective and efficient for the company.

This research has identified the most significant lessons from the case study company's eight years of experience in China. Firstly, having some local people in the business that can speak the language and understand the culture can be very useful, as they can give you an understanding at the grass roots level and make things easier. Secondly, key company members should visit the country regularly, and spend time and gain experience, because every time they visit they can learn something new, and educate themselves about the culture and keep learning and improving. Thirdly, it is essential to build good relationships with the business partners in China and invest ahead of the game. Fourth, it is important to be patient, because it is a big market and to have a long-term rather than short-term vision. Finally, flexibility to respond to different circumstances is the key factor to the business success.

This research has identified many channels for product sales in China which are different from Western countries. One channel is that of government; however, this channel can be very unstable or risky, for example, if the Central Government of China prohibits banquets, then the sale channel will be closed. Therefore, too much emphasis should not be placed on this channel. The target should be the groups with high incomes in China's urban areas.

I can conclude from this study that critical success factors are developing deep and broad knowledge of the market, of both distributors and consumers, flexibility in reacting to new knowledge, and persistence. In China, of course, your network of people and favours given and owed are a crucial initial set of assets to develop.

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Appendix 1.

Interview Questions:

1. Why do you choose China as export market?
2. When did you start export to China?
3. How long did it take you to establish the market?
4. What strategies do you use to enter Chinese Market?
5. What typical difficulties have you met in business operating?
6. Can you give some radical incident examples for business relationship establishing and maintaining?
7. Do you have long term or short term relationship strategies?
8. The Chinese market for domestic and imported wine has been developing rapidly, although it is still a small part of the alcoholic drinks market. What market segmentation does company target?
9. What market entry strategies did the company use in China? Which are the most useful and effective for market entry and maintain?
10. How to promote the wine in China?
11. 5000 years of traditional culture and opinion still strongly underpin Chinese culture - especially the concepts of Confucianism. How do you look at China?
12. What typical cultures impress you so far?
13. How do you look at 'guanxi' for your business? How to build it? What to do?
14. How do you consider the stakeholders in China?
15. What else do you think also important to enter China market except 'Guanxi'?
16. How did you find the distributors?
17. How to establish the business relationship?
18. What cultural differences do you see between China and New Zealand?
19. Have you invested a lot on establishing business relationships?
20. What are keys to the successful relationship developed in China?
21. How do you promote the products in China and increase the reputation?
22. What kind of activities do you have to make people love your wines?
23. How to protect the brand and quality of products?
24. How to control the quality of wine in China before reaching consumers?

25. What advantages do you have in competing with other New Zealand wine sellers?
26. What valuable lessons about doing business in China?
27. There are almost 700 wineries in New Zealand, in such competitive situation, what threats does the company meet? Any strength does company have in operating management? Any risks does the company have doing export to China?
28. What do you see as a driver of success?
29. What barriers have you met in market entry? How to overcome these obstacles?
30. New Zealand has established solid trading relationships with China since the signing of the China-New Zealand Free Trade Agreement in 2008, what benefits does the company get from this FTA?

Appendix 2.

Interview transcripts

Interview - Managing Director	
Researcher	Now I ask you the first question. As we know in your company, the export is the main strategy for market entry to foreign countries in China. In 2008 the company entered the Chinese market, is that right?
Managing Director	Yeah, that's correct. We were initially in Hong Kong and we'd been there for some years in Hong Kong, and then we went to Mainland China.
Researcher	So can you tell me the reasons why you entered the Chinese market?
Managing Director	Oh, well, I think that's obvious. It's a big market and it's one of the growing – it's the most or largest growing economy in the world and it's growing so rapidly and changing culture, changing education habits, changing politics, I suppose, and it's obvious that there was scope for business there. And the Free Trade Agreement which the government's worked on is awesome, even though that's not a reason that we did it, but that's also helpful.
Researcher	So the most reason is about Chinese – the whole China economics and politics????
Managing Director	Yeah, the economy, the growth of the economy, a large emerging middle class of people that have got spending power.
Researcher	Ok. What are the long term strategies for doing business in China? Long term strategies.
Managing Director	Yeah, long term. I mean, I wish I could really answer that accurately, but that's very difficult because we've already changed our strategy since 2008 as we've learnt a little bit more about the market, so in terms of long term strategy, I assume that we'll continue doing what we're doing now, but we have to wait and see how the market develops.
Researcher	Ok. So, how did you find the distributor?
Managing Director	The way we normally find a distributor in any country, and China's no different, is that the New Zealand Wine Growers Board here sets up trade shows and go to wine fairs and things, and then we go along with them, and then pour your wine to people that come in and just take sort of notes of people and hope that you make contacts for business. That's one way. And the other way is the Trade Development Board, the New Zealand Trade Development Board, the government board here that have offices in countries overseas, trying to develop markets for New Zealand wine, and we use them to

	give us contacts.
Researcher	So you have to pay?
Managing Director	Not necessarily. You have to pay to go in with the New Zealand Wine Growers. With the government, some work will just offer you information for nothing and then some you can employ them to actually work for you, for which you have to pay.
Researcher	Do you think that's useful?
Managing Director	Oh, very useful, very useful. Because they're there. They're working in the markets. They might have an office in Beijing and they know who sells wine, who's supplying the hotels and things like that. I mean, we don't of course, so they then give you the information. What we found differently in China compared to other markets is that in most other markets we try to get a distributor for the total market, and that's what we started to do – tried to do with China, but the market was so big and we found that we were better off to get different distributors in different provinces.
Researcher	So you mean they're so big so it's very hard to find the right people or right distributor?
Managing Director	Yeah. We're not a big company, and so for us to get a distributor that would cover all of China, is very difficult, and if they did cover all of China we wouldn't be able to supply it anyway. So what we actually found is that we've been better off to get different outlets and different people selling in different areas of the country. So you might get people come in from – they might own a chain of restaurants in a city, and they'll buy wine off us directly and sell it all through their restaurants. And another person might supply wine to the government for something, and that might be another outlet, and we find that that seems to work better for us in China than trying to get a distributor to market wine for us.
Researcher	So what strategy have you applied to develop a market??? Export growth??? Strategies?
Managing Director	Well, one strategy that we did in China, and that's for a couple of reasons – one is the language. I mean, it's alright in international hotels and things like that, and there's English spoken, but if you get away from that into mainstream China, you run into language difficulties very quickly. So we've employed a man in China and he is actually on the ground there for us, so that's one strategy.
Researcher	Local people?
Managing Director	Yeah, a local person, a chap by the name of Kai Lai Chai – Lai Chai – I don't know which way around it is.
Researcher	Chai, maybe it's Lai. A family name.

Managing Director	Yeah, Chai Lai. Lai Chai. And he's our man on the ground. We pay him a retainer. The other strategy that we use in China, and it's not necessarily related to China, but it's our strategy here of producing wine that represents good value and high quality, and we have a story. We've been in it for a long time so we always use that strategy of saying we're a family business, we've been in it nearly 100 years, and we're not new. We know what we're doing, so we always like to tell that story.
Researcher	So that's part of the products in the company's reputation?
Managing Director	Reputation. Because if you have a lot of money you can set up a new company. I can think of two or three that have been set up in New Zealand that might not be five years old. Well, we're 95 years old – 97 years old. So we have a lot of experience. A lot of experience in making wine and so we always tell the people in the international markets that if you come to Babich's, you'll speak to a ??? or something that is – if you come this year, next year, the year after, you most likely will be speaking to the same person that you were speaking to before. If you get into a big corporate company, virtually every time you come there'd be someone different there because people change and they come and they go. But in a family company, it's different.
Researcher	What barriers have you met in market entry in China?
Managing Director	Oh, well, that's very difficult. A lot of barriers, language being one, culture being another. Business in China appears to me to work a lot around relationships of who knows who and it's not as straight forward as it is if you go to the United States or to Australia or something. It's more – in those sorts of countries, in the Western sort of countries, business is sort of more straight forward. You've either got the product and the price is right. But in China, it appears to us, I mean, I might not be correct, but it appears to us there's a lot more value on knowing the right people and the relationships that you have to build up, it takes a lot longer to build those relationships. It might also seem more difficult to us because of the big language difference.
Researcher	So the culture is the ...
Managing Director	Well, it's a different culture. I mean, you would know that better than anyone. There is a different culture. There's – I'm not quite sure how to put it into words really.
Researcher	It's relationship development?
Managing Director	The relationships I think – put it this way. If you dealt with a supermarket in say Australia or in England, the relationship counts for very little. What counts is the product you've got and the price you can supply it for, and not a lot else, and the reputation of the product, the demand for it. But in China, you

	know, it appears to me the relationship is more important than that. You really have to know the people, get to know them, they have to get to trust you and then the business builds. That's my perception. I don't know what you think but I think it just takes a bit longer.
Researcher	So how did you overcome these barriers obstacles?
Managing Director	Well, the reason that we – one way we were able to overcome the obstacle was to put the man on the ground there, so that we've actually got a man on the ground there, who can speak to the people and show them our wine and talk the language, and that's exactly what we've done. And we still of course go there ourselves anyway, but when we go there, then that man takes us to these places and talks about it.
Researcher	So??? people, using the right people can ...
Managing Director	I think it's quite important in China – China in particular. Other countries have the same thing. For instance, if you go into Germany, there's a German culture but there's still – it's a western culture which you understand and there's a lot of English spoken, so you can have – it's not difficult to speak to people, to write to people. But in China it's is. It's fine if you're at an international hotel level or something like that, but to get down into the mainstream Chinese way of life, then there's – gosh, I think the amount of English spoken would be very small in percentage. Would you say that?
Researcher	Yeah, very little, and very few people speak ...
Managing Director	And I would imagine, and I might be wrong here, but I would imagine that the students going through the universities now and the school system, the education system now, will probably be learning English very very quickly, I would think. Put it this way – they will be learning English a lot faster than people here will be learning Chinese. But the older generation – like when I say anyone that's sort of over 40, it's???
Researcher	No English?
Managing Director	Very little, unless ... Where there is a lot of English – I've only been there once. What I found in places I went in Beijing, was through the international hotels. And what I found there was there were quite a few Chinese people such as yourself who have been educated outside of the country but have gone back again. Because they saw more future for themselves in the economy of China than working in Australia or the United States.
Researcher	That's right.
Managing Director	And there are a lot of them. You go to the top international hotel and the Food and Beverage Manager is Chinese, absolutely fluent in English because it's probably his number one language, and yet he's working in China. And in fact I

	asked a couple of them that and said --- Why did you come back here when you'd emigrated, your family had emigrated? And they said --- Well, there's so much potential to do well in the economy. So that's fine, but if you get down into restaurants and ...
Researcher	Local people.
Managing Director	Yeah. You can't speak ???, you can't ... so we're dependent on – we have to have people that can speak the language.
Researcher	Definitely.
Managing Director	So you either employ them yourself from here, someone like you that could speak both, or someone over there that speaks English, and that's what we've done. We've employed someone over there. What I'm not quite sure of, I can't remember how we made the contact with him, how we actually found this particular chap, because I couldn't do it, it's the marketing people.
Researcher	And they found it?
Managing Director	Yeah, they found this man. I'm not quite sure how that happened.
Researcher	Do these men contribute a lot?
Managing Director	Yeah, oh yeah. He's been out here. We brought him out here. He visited us just recently and everything ... he basically handles virtually all our business, and we've got the distributor that we ended up with first of all, a company called Lucky Horse. Lucky Horse is the name of the distributor and he deals with Lucky Horse and he goes through, but what we found with Lucky Horse, it wasn't going as quickly as we would have liked and that's why we've gone and ... we're still with Lucky Horse but we've taken up with people in different regions as well, because they've approached us.
Researcher	Ok. Now doing business in China, it is important to understand the Chinese culture. How did you learn about that and what to do for that?
Managing Director	Yeah, I suppose you take advice and usually from the Trade Development Board that are working in China. Then most of the people – I'm just thinking the time that I went there, and the people that you were introduced to and business-wise, they all spoke English, and they took us to things and to clubs and restaurants and things. But the language was never a problem because they always spoke English. But that's not too much help if you want to go out and do the work yourself. You have to then speak the language and that's why we use this chap that we employed, the chap there.
Researcher	Do you see a need for building networks, developing personal relationships. In China we call Guise – Guise just means

	network, yeah, personal networks. For the business beyond the important agent and how do you think you should develop them? Actually, your ????. Building relationships with the local people, that's ...
Managing Director	I think it's probably – I don't know whether it's more important there than other countries, because it's probably important in other countries too, because it probably happens without you realising it because if it's an English-speaking country then you don't think it's anything special because you get to know someone and business develops from there. But I think in China it's very important and the only way we can really do that is by having Chinese people on the ground, or employing them from here which we haven't done, but we've employed one there.
Researcher	So in China, the distributor has an agent. Is that – what do you think the other people – like we say --- Who are your stakeholders in China? Is that the distributors and the agents?
Managing Director	See, what we've got in China is – we've got this distributor called Lucky Horse, and Lucky Horse – they've got their own wine shops and clubs and they distribute to the licensed trade or the liquor trade. They distribute to hotels, they sell to restaurants, they sell to ... They sell international wines, so ours is just one of them. So that's one but we've also got these other people that come to us from other provinces and they've approached us. It's not we've found them, they've found us. And then we've also got a chap here in New Zealand who works on – he sells goods, dairy products and meat and stuff into China and he makes contacts with people that he brings to us, and that might own restaurants or clubs or whatever, and through them we've found that we're better off having someone in this area and someone in that area and someone in this area, and we're better off than trying to just work it all out like a traditional market. Because some of the business there are actually quite big. Like for instance, the restaurant businesses – some people in some cities apparently might have restaurants where they can buy a container of wine themselves and just sell the container full of 1,000 cases of wine, just at their own restaurant, and they do.
Researcher	Yeah, some restaurants are very very big and they have many many ...
Managing Director	Yeah, so we've found those people or those people have actually found us, and this chap here, Ronnie, that works for us here, he gets a commission on business. He brings business. He makes contacts in China and those people come out and they'll come here. He brings them here and as I say, they might own restaurants or have an avenue to sell wine. So we've done that, which is quite different to what we've done in – we don't do that in other countries. But no other country's as big as China with a billion people.
Researcher	That's right.

Managing Director	And that's the other thing of course, if you think of Auckland City here with a couple of million people, and in China there's cities like that everywhere. A million people is nothing. Nothing.
Researcher	No. A billion. 1.4 billion.
Managing Director	Yeah, I know, billion. But the point is that everyone knows Beijing and Shanghai – everyone knows those, but there's other cities that have 3, 4, 5, 6 million people, like nothing – that's more than all of the New Zealand population, and there's cities all round the place like that.
Researcher	Yeah, that's right. What factors do you think are also important to enter a Chinese market, other than this Guangshi relationship? What other factors do you think?
Managing Director	Well, you've got to have a relationship. I think like, and you've got to have the product they want, you know. For instance, the Chinese in the past have quite liked red wine rather than white wine, and do you know why they like red wine more than white wine?
Researcher	Mm, red wine – actually I know for local people they had lots of the red wine made from rice, red wine. The grapes wine also, yeah, now getting more and more popular because we know red wine is more healthy and ...
Managing Director	Yeah, now why do you know red wine's more healthy?
Researcher	Because it's made from grapes.
Managing Director	Yeah, but white wines made from grapes.
Researcher	I don't know.
Managing Director	No, I know. I'll tell you. There was a study done in France and it's called – it's titled the French Paradox. And what actually happened is – the medical people looked at the French diet and they found that French people usually drank – they had quite a rich diet. They use a lot of cheese, they eat a lot of bread, they have quite a rich diet, and yet their heart disease was lower than the normal thing. And when they've studied it, they've found out that one thing that the French are different at is, they drink a lot of red wine, so they promoted it as a study and found that there was a link between the consumption of red wine and the lower heart disease, and that's where – this was written in a paper and that's when suddenly we've got – gee, red wine's healthy, because it's good for your heart. Now that's very simple, but that's where it came from. And a lot of the Asian countries – Japan and places like that, all like red wine. But now it's found actually that probably white wine might have some benefit too but when you get used to drinking wine, and fashions change – sometimes people start with red wine then they find white wine might be lighter and nicer in hot

	weather and things like that. So there's quite an acceptance of white wine as well as red wine.
Researcher	So you mean the product - people wanted the product?
Managing Director	Yeah. I think what happens in economies where the standard of living starts to rise and people become more educated and they travel more and television becomes available and you can see more things overseas, things that exist in other countries – there's an awareness that starts to build up and I think this awareness that wine is a sort of fashionable drink to consume within the world. I'm not talking about China, I'm talking about other countries. Then these countries like China which might have been quite low in wine consumption and being more used to drinking either beer or wines made from rice or whatever, suddenly they become aware of that and then it's a slow thing but it builds up and builds up and builds up, and I think now that China's right into that, that New Zealand people were and probably 25-30 years ago getting this sort of awareness of different wine styles.
Researcher	So what cultural differences do you see between China and New Zealand?
Managing Director	Cultural differences. I can't say that I'm versed enough in saying what the cultural differences are in China. You would be a lot more versed in that than I would be because you've lived in both. All I can say is that it is different. It's just different. I suppose mainly brought on by the sheer volume of people. There's a lot of probably cheap labour available so you can eat in restaurants at low prices and things like that. Whereas in New Zealand it's not very easy to do that. So people cook for themselves and you don't go and have a meal down the street because it's too expensive, but I think if you get in some countries, and I think China would be one of those, there are a lot of restaurants in the big cities that just serve ordinary people that need to eat.
Researcher	That's right. If you have NZ\$ you can have a very nice, wonderful lunch. Rice and soup and vegetables. \$2 and you can have meat, fish.
Managing Director	Yeah, but not here.
Researcher	No, not here. At least \$10 you go to a restaurant.
Managing Director	Yeah, but even that would be hard to find.
Researcher	Yeah, that's a very simple ...
Managing Director	Yeah, very simple. But if you go into say like on Ponsonby Road and restaurants along Ponsonby Road – not that I go to them much but you'd be very – you'd be very – to have two courses, gosh I don't think you'd have much ...
Researcher	\$50.

Managing Director	Yeah, you might get it for a bit less than that but you'd be very lucky to get anything under \$30, wouldn't you? Very, very difficult I would think. Whereas you'd go to some of these countries overseas, particularly if you are in the part of the city that tourists aren't in, you can go into places like in Italy and have meals or Croatia you have meals for not much at all.
Researcher	So have you invested a lot in establishing a business relationship in China? Have you invested a lot in the company?
Managing Director	Well, we have really because apart from the fact that if you're visiting the country two to three times a year, and attending any trade fairs, we've supported functions with our agent, the Lucky Horse people, dinners that we've paid for, things like that to show our wines to companies. But the biggest thing is of course having the man on the ground. Employing someone in the thing to do the work for us, yeah.
Researcher	So what are the keys to successful relationships developed in China?
Managing Director	What are the keys?
Researcher	Mm.
Managing Director	Oh, well, I think it's probably no different in China to anywhere else. I mean you have a quality product at a good price and you give good service, you have to do what you say. If you say you can deliver it at such a time, you have to make sure you do, and I think that China's no different to any other market. Good service, the right product, the right price.
Researcher	Very good. Now New Zealand has established solid trading relationships with China since the signing of the China/New Zealand Free Trade Agreement in 2008, so what benefits does your company get from this FTA?
Managing Director	Well, I assume that there's – I'm not quite sure. Is it 100% functioning at the moment, or not? Or is it slowly?
Researcher	You mean the ...
Managing Director	Free Trade Agreement.
Researcher	I don't know.
Managing Director	Neither do I. I know that Helen Clark signed it, but if it is fully functioning, because sometimes these agreements take a little bit of time – they do so much each year and lower tariffs. So I would assume that if there's a free trade agreement that we might have advantages in supplying wines with no duties on them compared to other countries.
Researcher	So you still pay duties at the moment?

Managing Director	Pardon?
Researcher	The company still pays the duties to ...
Managing Director	Countries? Well, a lot of countries you pay – there's a tax on your wine when you go into the country.
Researcher	So no free duty?
Managing Director	Well, some countries might, but some countries have taxes on or tariffs. They're slowly getting pulled down right around the world.
Researcher	So you mean, actually your company ...
Managing Director	They pay – they just put the tax up, like in the UK. If you send wine there's an excise tax on it and they just put it up all the time. Then there's the VAT tax and other taxes. It's like in New Zealand here – the same in New Zealand. The government puts a tax on wine if it's consumed here. I don't know if you know how much it is, but it's probably about \$2.50 for every bottle.
Researcher	So you mean you kind of see the very straight away the benefits your company gets for this Free Trade Agreement?
Managing Director	Yeah, I think that would be??? I'd be quite honest, I have to say that I'm not sure if that Free Trade Agreement is fully operational yet for wine. I'm not sure.
Researcher	Ok, I will check.
Managing Director	Yeah, check that out because I know it was signed but a lot of these Free Trade Agreements – like there was one just between Australia and New Zealand called CER – Closer Economic Relations, and they actually removed the tariffs over about a ten year period. You know, it was just slowly – so many percent this year, so many percent the next year, and slowly it came down. It just didn't happen overnight and I don't know if that's the situation with the Free Trade Agreement with China or not. One thing I think that we need to acknowledge is that – one thing that New Zealand is well known for is the dairy product that they export. Now I know in China it's? But it's the wrong thing to say, probably. Fonterra had that problem with – there was the Melamine in milk powder or something. That was a bit unfortunate but that was probably not too much fault of the New Zealand dairy industry but it was something that happened in China. But New Zealand's got a very good reputation for food products, so wine I think does come in behind the reputation that's already been built up by other companies which is handy.
Researcher	Yeah, this is the next question I wanted to ask you. What effects do you see predicted from the series of quality management progress in the New Zealand milk product

	suppliers to China? Do you see or predict any effects on your company in China in the New Zealand wine industry?
Managing Director	Because of the milk problems?
Researcher	Yeah.
Managing Director	No, I don't see any effect at all, no. I don't think so. I think it would have an effect on the dairy industry products for a while, until they forget about it. But I don't think it will have any effect on wine.
Researcher	Ok. There are almost 700 wineries in New Zealand in such competitive situations. What threats does the company need to address? What threats do you think?
Managing Director	You said there's 700 wineries and it's competitive. Did you say what risk this is?
Researcher	Yeah, what risk.
Managing Director	What risk. Yeah, I didn't quite understand.
Researcher	Threats – T H R E A T.
Managing Director	Oh, threats from competition of other companies?
Researcher	Yeah.
Managing Director	Now obviously there's a threat of – competitive threat within the industry here, but having said that, you sort of need a number of companies to do well in the market so that people understand New Zealand wine. For instance, we're too small to be able to sort of get New Zealand wine known just through Bavich Wines. So we're probably better off that maybe 7 or 8 or 10 companies do well, and we're one of them. And I think we're better off. But in terms of 700, I think you'd probably find that 600 of those will be too small to put the effort into the company, and all the business that will - 95% of the business will be from that top 100, top 50 companies, would probably be the ones that will do the bulk of the business there. I would say that 650 would struggle. That's what I would think because it costs a lot of money to go there and unless you've got a very good reputation and people want your wine and come and search it out, it's going to cost a lot to go there, and you have to visit the market, you have to go there, you have to build the relationships. You can't expect it to happen by itself. You have to do the work. And every time you go there it probably costs you \$10,000 or \$20,000, so you've got to have a certain amount of business to fund that. But we're still better to have a number of companies do well. You're better off to go into a wine store and have 10 New Zealand wines on the shelf than one, because at least then you've got 10 and people can see it. If you put one there, no-one would even notice it.
Researcher	Ok. So what do you think the advantage of your company is?

Managing Director	Our advantage?
Researcher	Mm.
Managing Director	Well, I think the advantage that our company has is that – I assume you're talking about advantage against the other 700, or the advantage we might have in China?
Researcher	Actually, I mean here, because the top three countries with the fastest growth, the volume export bottled wine to China for New Zealand, to Spain and South Africa. So I mean, the other three countries together account for about only 9% of total bottled wine imports, so I mean, what competitive advantages does your company have?
Managing Director	There's two ways to answer this. You can say what competitive advantage we have against say Australia/South Africa, or what competitive advantages Bavich has against other New Zealand companies that Bavich supply. I mean, I'm not quite sure which way you want me to answer this. I'll answer it both ways. The competitive advantage that we have against ...
Researcher	The other countries?
Managing Director	The other countries, yeah, is the fact that we have a climate that produces a certain style of wine that's found that internationally people like, and particularly the white wines, and in particular are quite light and have a lot of flavour, a good aroma, and people love them. I mean, it's shown in Europe, it's shown in the United States, it's shown in international wine competitions, it's shown in Chinese wine competitions. You know, our wines score well in competitions against companies. So that's I think an advantage is our climate which is ours. And the other one where I think we've got an advantage is that New Zealand? Has a good reputation for supplying good food products and it's recognised, and particularly the dairy industry, and meat and wool is known. Whereas South Africa, for instance, I mean they are known for wine but I'm not quite sure what else they're known for really. I just can't think of something, apart from game reserves and things. A lot of the South African things seem to be all tied around their political problems. New Zealand's got very sound government politics, a stable country. Against our competitors within the country, our competitive advantage is that we've been in it a long time, we've got a lot of our own vineyards, we know what we're doing and as I say, we've been in it for 97 years, and we're a company that's got quite good funding. We're not heavily in debt so that we can actually devote time to travel to go to the markets, to do everything, because our company is large enough to afford to be able to do it. Where our difficulty is, is that you get the big international companies, the big wine companies in New Zealand have just got more resource, more money, more people to put into it, but we put up with that.

	We've done it for 100 years and we're still doing it.
Researcher	Very good. How can you build a sustainable competitive advantage for the company in China?
Managing Director	How can we build a competitive advantage in China for our company? Well, I suppose all we can do, and that's what we endeavour to do, is supply high quality wine at a fair price in comparison to our competitors. Hopefully that when people try our wine against our competitors' wines, within the same price range, that our wine comes out better. But all we can do is give good service, visit the market, see what the market wants and supply them what they want at a fair price.
Researcher	And what unique strengths does the company have?
Managing Director	What unique?
Researcher	Unique strengths.
Managing Director	Unique strengths. I don't think it's really unique, but it is a strength, is that we're probably one of the few family-owned companies that owns most of our vineyards ourselves. We own about 60% of our vineyards from our own company-owned vineyards – the rest from growers. And also, we're not alone in this, but a lot of the growers either come from Hawkes Bay or they come from Marlborough or the South Island, and we actually have vineyards in both, and we're not alone, others do too, but that is a strength that we've got more to offer than if we were just in one of the regions.
Researcher	Ok. So do you promote products in China to increase your reputation? ??? that. Promote products?
Managing Director	Yeah, we do. This is what I said to you before. With Lucky Horse we've actually put money into funding a dinner where they pull all their good customers to try our wines, and also we promote the product here to Chinese that have come from China. We just had a group here last week, representing the government, and they're looking for wine and meat and wool and dairy products and things. There would have been about four people I suppose, and Ronnie who works for us, brought them here and we had lunch here. So they're quite keen to ...

Interview - Marketing Manager

Researcher	The first question – I was just talking a strategy for international operations. So what are your business plans for China, the first one?
Marketing Manager	Yes. China is definitely a country that is one of our key progress countries. Five years ago, China was not even in our top markets. Now, it's our fourth largest market, so we've identified it's very fast growth, so we want to put a lot of focus into China as the key market for Bavich.
Researcher	So the plan is just ...
Marketing Manager	So the plan is to have a defined plan for China, which we have. Did you want me to get into the details of the plan, or ...?
Researcher	If you just briefly mention a few points.
Marketing Manager	Yeah, because for China, what we've learnt is, each year we've actually adjusted the plan. It's been a different country to the rest of our export markets because in our typical markets we just have one distributor. We sell them the wine and then they sell it to the restaurants and the liquor stores, and they do all the work and we just support them. And there's just one relationship between us and them. With China, because it's so big, we've found that you can't just have one distributor, you have to have several distributors around China, and then even the distributor model was different. Some of our buyers just for one channel, like providing the wine into functions for the government. So this is a new channel for us because in other countries you don't have this channel, so we're learning – actually, this is an important channel and we have to focus on that. Then there's the traditional grocery stores in China, so we have to have a target for that. Then there's the five star hotels and resorts, so we have to have a separate plan for that. The main kind of thing we've done in the last two years is hire a staff member in China full time. That's a man who lives in Shanghai, so now we have someone who speaks the language to help us with the business. So that's kind of a brief outline of what we plan to do.
Researcher	Ok. So why did you choose export as the main international market strategy? Do you think this ??? is ???.
Marketing Manager	Yeah, it's ???.
Researcher	You can ignore if you feel ...
Marketing Manager	Because basically our business – we've exported for a long time, and I guess to answer that question was, New Zealand has a very small population. Four and a bit million – compare that to one city in China and ????. So that's why we export, because New Zealand's too small and there's lots of wineries in New Zealand. I think at the last count there was 700 different wine companies in New Zealand, so we have to export to sell all our wine and we find

	that's a nice way to do business to have our wine is as many countries as we can.
Researcher	Ok. And what barriers have you met in the Chinese market? The barriers.
Marketing Manager	<p>So I'll just touch on a few things I jotted down for the barriers, and I can give this to you. The first one is obviously language, and cultural differences. So to overcome that barrier we did hire a Chinese-speaking Bavich Brand Manager who's based in Shanghai, so that was our solution to help us with language and culture, because it's very important to us. The other barrier was our lack of understanding for the Chinese market. So what we did to overcome that was visit the country regularly, spend more time and experience, because every year we learn something more, and we've been fortunate. We started – it must be seven/eight years ago now, so we actually have dealt with China for quite a long time in comparison with our competitors. So yeah, time and experience. We've started to build some good relationships with the buyers in China, and we think we're investing ahead of the game, so we want to be one of the leading New Zealand companies investing in China, so we're not the last to be in China, we want to be the first. So if someone's in China and drinks New Zealand wine, we want them to think Bavich wines. So the other thing we've had to do is continually change our model and strategy. Like I said, the first strategy was to find one distributor to sell the wine in China. Well, we learnt after two years that China is too big, so we had to change that strategy. We also speak with many other wine companies for advice, to see what's working for them, and we use our resources in the market. For example, the New Zealand Wine Growers who run events, and New Zealand Trade and Enterprise who have been very good in having some staff in China, whose interest is New Zealand. And even ???, they really want to support New Zealand companies. And there's also been lots of China business seminars held in Auckland, and we attend those to learn more about the market. So yeah, that's really the main problems and how we've tried to manage them early.</p>
Researcher	That's very good. So what is important to businesses for the Chinese market?
Marketing Manager	<p>Yeah, I think what's been important for us is, once again, that flexibility to keep adjusting the distribution model and finding out what works. The products are obviously very important. There's the wine in the bottle, but there's also the packagings. We've learnt that in China, how the product looks is just as important as how it tastes. So you have to be very smart with your packaging. One example of that is they request cork instead of screw caps, so, you know, the closure in the bottles. Like this one is a screw cap, but the more traditional one is the cork, and the Chinese market has been exposed to French wine which is all using cork, so they think cork is the best. So a couple of our products, we've had to change and use cork, so it looks more expensive to the Chinese market, so you have to be flexible with the packaging. Style of the wine is really important. We have red and white wine.</p>

	<p>We've found red wine's been in the most demand, but we're also trying to sell the white wine and we think the future long term, could be with white wine. Especially the younger women drinkers in China coming through in their kind of late 20's age group, a bit of money, living in the cities – we think they will drink more white wine because it'll become more fashionable. Like the Western culture of drinking wine when you have a meal, particularly people that have travelled. People who live in other countries, Western countries, then go back to home in China, they've learnt the new culture of drinking wine. So that'll be our target market for people who understand wine. So there's flexibility with your distribution and there's the products themselves. The other thing we've thought of as being important is the Chinese branding, so we created a Chinese ...</p>
Researcher	Bai chi?
Marketing Manager	<p>Yeah, bai chi. And we have that fully translated on our website in Chinese. So although we're a New Zealand brand and our label does not contain the Chinese characters, our marketing to support China is translated, just to make it easy for people to understand. So those are probably the key factors that we've found to help be successful in China.</p>
Researcher	<p>Very good. So doing business in China, it is important to understand the Chinese culture. How did you learn all that?</p>
Marketing Manager	<p>Yeah, that was – I kind of touched on it before. It was definitely something we had to learn and by no means are we experts, we're still learning every time, but having hired Lei in China, we can ask him for support on any questions we have, and also the extra business training about dealing with the culture of China has been useful.</p>
Researcher	<p>Ok. Please tell me how you operate in China???, what is different?</p>
Marketing Manager	<p>Yeah, so how we operate in China currently is, we have five or six different buyers paid for directly by Bavich, and they are in a province. We try not to have two buyers in the same province, so we spread our buying to each province of China. But we only have five or six at the moment. Eventually we might have 10 or 11 big buyers and we support them in the market, helping them do trade shows and tastings and events, and they all sell to different people. Some of them sell to the private function or banquet market, or government banquets. Some of them have retail stores and they sell the wine in shops. So we have quite different partnerships in China at the moment, and we're always looking to add to that and grow our existing partner's business. That's our basic model at the moment.</p>
Researcher	<p>So what cultural differences do you see between China and New Zealand? Cultural differences.</p>
Marketing Manager	<p>Yeah, there's quite a lot of cultural differences. Just kind of the way you do business is the main one we've had to get our head</p>

	around. And also the importance of presentation and status. And obviously the language has played a part in it as well, so those are the biggest differences we've had to contend with.
Researcher	Now, New Zealand has established??? Trading relationships with China??? New Zealand/China Free Trade Agreement in 2008. What benefits does the company get from this LTA? What benefits?
Marketing Manager	The Free Trade Agreement has been very good for New Zealand and it helps us as well. Obviously, one benefit, before getting into the detail of the Agreement, is that people are aware of the Free Trade Agreement. So Chinese buyers are aware that New Zealand has a Free Trade Agreement, so when they think they want to buy some product from – let's import some product – let's use New Zealand because we have this Agreement. Then there's the tax savings, so it becomes inviting for them to buy our wine. So that's the main benefit of the agreement, it's very useful.
Researcher	So you can increase people to buy the products while you're there?
Marketing Manager	Yeah, because they know – Oh, yeah, a Free Trade Agreement with New Zealand – it's very good.
Researcher	So what effects do you see or predict from the series of quality management problems seen in New Zealand milk product suppliers to China? Do you see your??? Effects on the company in China, or New Zealand-wide industry???
Marketing Manager	Yeah, I think any product from New Zealand falls under the umbrella of New Zealand. So if one product gives a bad image, then it can also effect the other industries from within New Zealand, so it's very important that the brand "New Zealand" is very strong. So we hope problems like that are reduced and disappear, because it can influence the image of New Zealand. From a wine perspective it's the same. We have to make sure we send high quality wine and have a very high price, so we don't want to be seen as being a cheap country or a cheap provider of wine, because we're not an expensive provider of wine. So it's all about the image of first New Zealand, and then for us, the wine, and then thirdly, Bavich.
Researcher	What do you do to be more successful than your competitors???
Marketing Manager	I guess it's about setting up for long-term engagement with China. Like we're an old company, nearly 100 years old, so we do everything with a long-term vision. So we try to build various solid relationships with people from the start, to ensure we continue working together for a long time. Sometimes that means a bit of cost up front to get things established, but we understand that over the long term it'll pay for itself. So definitely thinking the big picture, rather than short term gain is very important.
Researcher	What unique strength does the company have?

Marketing Manager	Our unique strength is definitely we're family-owned. The beauty of being family-owned is that you can come in here and you can interview Managing Director Bavich. If you go to one of the big corporate companies, you would not get a meeting with the owner of the company. So I like to say that we're big enough to be a serious producer of wine, but small enough to still be personal, so you and I can meet here and chat about this because we're small and personal. But, we have the vineyards and the production capabilities to produce good volumes of wine, therefore we're a good supplier. We're a good company to work with.
Researcher	Do you think that you have enough wine to supply to China if you've got a huge demand?
Marketing Manager	Yeah, we think we do. There's always room to buy more vineyards and buy more grapes and grow slowly. Plant more varieties to suit the market. And we've already invested in buying extra vineyards in both Hawkes Bay and Marlborough, with China in mind. It would be difficult if someone said overnight – we want a million cases of wine – that would be difficult, but I don't think that's going to happen. But if they said over the next 10 years we want to build your brand to this, then we can plan and plant and grow according to the demand, so we think we're in a very good position for that.
Researcher	How do you promote your products in China?
Marketing Manager	Promotion – we have a brand kind of marketing plan which is about making Bavich famous in China. So the kind of touch points for that are – No 1 is our website which is full Chinese. No 2 is online media – we use Weibo account for Bavich wines.
Researcher	Weibo?
Marketing Manager	Weibo, yeah.
Researcher	Oh, you've got Weibo?
Marketing Manager	Weibo, yeah. The social media. And thirdly is events. So there's New Zealand wine events which Bavich attend. There's New Zealand Trade and Enterprise dinners for wine producers to talk about their wines and market it. There's our customers doing their private events for their customers, so we can also attend and support them. They're sending our wines to influential magazines and wine competitions to win awards and become more famous in China.
Researcher	Have you thought of advertising on TV?
Marketing Manager	No, we haven't. It's not something we tend to do, but if our man in China identified that as a good strategy, we would look at it.
Researcher	But very expensive?

Marketing Manager	Yeah, it would be very expensive, I think, yeah.
Researcher	That strategy – more quickly people to know this wine.
Marketing Manager	Yeah, that's right. Yeah, so you've got to kind of have the distribution and availability before you spend the money on advertising, so we could have all the big bill boards in Shanghai – Oh, Bavich, very nice – but where can they buy it? So first we want to have the wine available and that'll help build our brand awareness.
Researcher	So how do you protect your quality?
Marketing Manager	Well, the Bavich family who I'm fortunate to work for, always focus on quality in everything they do. So right through from the vineyards to the wine making to the packaging, to the systems we have in place, everything is focused on high quality.
Researcher	In China, who looks after the quality? I mean, in China, if you left your wine in China for a long time, the wine gets ...
Marketing Manager	Yeah, we have to rely on our Lei, who's our man in China to ensure that the customers are looking after our wine, and quite often, even for shipping a container, we suggest they use a thermo-liner container because China can get very hot in summer, as you know. So yeah, definitely, quality once it's in China, is something we have to rely on our man there to control. And we rely on him on educating our customers to ensure they understand how to look after the wine. You can't leave the wine in the sunshine in 40 degrees because the corks will pop out and it'll all go bad. But they understand that and they ask us the right questions and we supply them education to best look after and handle the wine.
Researcher	So where do the lessons happen or doing business in China? What valuable lessons?
Marketing Manager	Oh, lots of lessons. Yeah, I think one lesson I've learned, and I think it gives us an advantage, is that being in Auckland we do get a lot of enquiries from people wanting to buy our wine for China, and I could easily just say no to them all because I get so many, but I take the time to listen to everyone's story and see what their plan is for selling the wine in China. Work out if they're suitable to partner. I think I could easily just say no to a lot of people, because I get nearly a call every week --- Do you sell your wine to China? And some people are just interested but they don't want to order, they just want to find out more information. So I have to be very patient and listen to everyone and eventually, one of them will be a very good customer. So if I listen to 10 peoples' request to export wine to China, maybe one of them will be very good, but maybe nine won't even place one order. But I still take the time to listen to all 10 and it's quite different because no other countries were getting requests so regularly to sell wine, so I think that gives us an advantage, because I'm willing to hear everybody's story to see if they're suitable.

Researcher	Next question is about what is the medium to long term cost for your company caused by the several recent export food quality issues with New Zealand products? ??? Similar.
Marketing Manager	Yes, it's similar, but I'll touch on another topic which is in line, that has affected us this year, is the Chinese government decision to clamp down on high spending for more functions. So basically from that, we're selling less – some of our buyers were providing our wine to the government for drinking, and now the government is being very cautious about their spending. So that has had an impact on us. So our way around that is to try to help our customers, our buyers, open up new customers more than the government, because we can't rely just on the government for that. So that has affected us and it's slowed our business down quite a bit this year.
Researcher	Now, what do you see as the key factors to the company's success? Key factors.
Marketing Manager	We've touched on those.
Researcher	Yeah, touched before. You already mentioned some things.
Marketing Manager	Yeah, I think so. One thing that did help us – I mentioned we entered our wines into competitions. We've won many gold medals at the China Wine Awards, and last year – this year, sorry, we won New Zealand Producer of the Year for wine, so that was a nice trophy that we can tell our customers we're the best producer in New Zealand, based on this competition, so that's very – those third party endorsements are very valuable in the Chinese market.
Researcher	The last question is about – could you please give me some of your thoughts on what are important points for international business with China. Important points?
Marketing Manager	Yeah, I think the important points are to visit the market to get a better understanding. Educate yourself on the culture. Have someone in your business that can speak the language, that's very useful, and for us, they're based in China so it gives us a foot on the ground, so we think that's very important. And have a flexible business strategy is probably important. Be flexible and be patient because it's a big market. You don't need to sell everything in the first year, you need to build up for long term business for 20 years.
Researcher	So what do you think the company uses to develop relationships to support it – market entry in China? What do you think ??? focus on ??? points.
Marketing Manager	For?
Researcher	Developing relationships.

Marketing Manager	Oh, for building relationships?
Researcher	Yeah, to support your market entry. Do you think developing relationships help market entry ???.
Marketing Manager	Oh, yes, absolutely. You need relationships with - actually a lot of people within China – first of all good relationships with your buyers who are ordering the wine, that's most important. But there's other people you can also build good relationships with in China like the New Zealand Trade and Enterprise staff. Make sure you invite them to the events and make them understand your brand. There's the New Zealand Wine Growers staff who are also based in Shanghai. Let them know that you're there, so they think of you when there's an opportunity for wine. There's relationships between us and Lei in China, and make sure the communication is very strong, so he knows which wines we have available to sell and basic information. So yes, absolutely, relationships are very important.
Researcher	Important points – you mean relationship development is very important.
Marketing Manager	Very important.
Researcher	These are all the questions. Because this is my first time doing a research interview, do you have any extra questions for my research? Do you have any ideas?
Marketing Manager	Is your research focused just on the wine industry, or just ...
Researcher	Yeah, just the wine. I also only focused your company. ??? this company can get some ...
Marketing Manager	??? for other companies ???
Researcher	To help us get some good points to support. Maybe another company wants to do business in China.
Marketing Manager	Another thing that I just thought of that I hadn't touched on, just as an extra one that people might not think of that's very useful for us, is the business we've done within New Zealand for China, because there's a lot of Chinese living in Auckland that have their family and relationships in China, and a lot of them have visited us here and it's a market that you can build your brand here and they take back the good words charmer. So it's actually bigger than you think and for us, being in Auckland, I think has been an advantage because we have vineyards in Marlborough. If our office was in Marlborough, we wouldn't meet many Chinese. Being in Auckland we can ...
Researcher	Ok. Maybe I stop the recorder.

