THE ASIAN WINE MARKET:

A CASE STUDY

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ABSTRACT

Faced with the prospect of over supply, wine exporters are increasingly focused on establishing new markets, particularly in Asia. Recent papers have suggested that relationship-marketing approaches may be the most successful for establishing wine sales in these markets. Despite many models, evidence on the content and implementation of relationship market remains scarce. This research reports on the experience of one firm in Asia, and identifies the link between cultural values and the need for relationship based strategies for wine exporters to Asia. Tactical implications for wine markets are also explored.

KEY WORDS: Relationship marketing, South East Asia, Cultural differences, Export

INTRODUCTION

With the world supply of premium wine outstripping demand, a number of wine exporting nations have been seeking out new markets for their products. This strategy has inevitably involved turning away from traditional wine consuming nations and targeting countries where the consumption of wine is a relatively recent phenomena. The group of countries known collectively as South East Asia (China, Taiwan, Hong Kong, Vietnam, Thailand, Indonesia, Malaysia, Japan, Singapore, and Korea) are some of the new markets being targeted by wine producers. As with their counterparts in a number of other industries, wine producers have met with mixed success. In 1998, Southcorp’s (Australia) David Combe, stated:

The long-term trend is strongly upward. (Fallowfield pp. 70)
However by June 2000, Hori (2000a) noted that in Japan falling sales and excess stocks have:

> Been a rude awakening for the fledgling importers and exporters from all the major countries. (pp. 49)

The difficulties in selling wine in South East Asian markets have been noted by Handley and Lockshin (1998). Complicated distribution channels, archaic legal systems, different cultural values, different languages, and an uncertain economic future as a result of the ‘Asia Economic Crisis,’ make exporting a ‘new’ product like wine to Asia difficult.

A recent article has suggested that relationship marketing may hold the key to successful product positioning for wineries entering Asia (Bretherton and Carswell, 2001). Lindgreen (2001) suggests that the adoption of relationship marketing can provide wineries with a significant competitive advantage, although it will require major changes in the way wineries conduct business, and in the structures and systems they employ. Bretherton and Carswell (2001) argued that firms needed to approach Asian markets with an open mind, and be prepared to form multiple relationships in order to successfully position their wine. Success they noted, would take time, patience, and investment in trust based relationships. Despite this, little research has been conducted on the content of relationship marketing strategies, and the implementation of such strategies at a tactical level (Lindgreen, 2001; Webster 2000). This paper examines the strategy of a successful New Zealand winery in South East Asia, and finds support for the use of relationship based strategies.
FINDINGS

The case consisted of a medium sized New Zealand family owned winery (the company is relatively large by New Zealand standards but would be considered small by world standards). The case was developed based upon an extensive interview with the company’s former managing director. The managing director had set up export contracts in several South East Asian countries, including Japan, China, Taiwan, and Thailand. The initial entry into the Asian market came about through an inquiry from the Wine Institute of New Zealand in October of 1998. Mitsui (a large trading conglomerate in Japan), was looking for a company that could fulfil an order of 15,000 cases of wine. This amount of wine is substantial for most New Zealand wineries and at first the company couldn’t meet the order, but they knew that within three years they could fulfil it, and therefore followed up the request. The company dealt with Mitsui’s Auckland office, which then dealt with Tokyo. Using a middleman was critical, as the interviewee stated:

In Asia it’s all about people. Trading in Asia is all about getting the right middleman, getting the right connection, the right people. You absolutely need a middleman, you can’t get into the stores [without one], and you need a person with connections to get to the markets. The Buddhist principle of reciprocity is very important. ‘If you help me, I’ll help you’. If you become part of the network, then you also have connections so you become valuable. [The first critical issue is to] create a rapport with the right people. Only then can you discuss the issues of price, the wine, and the company. Personal rapport is key - much more so than in Europe. In Europe a great wine will sell even if they don’t like you that much, in Asia if they don’t like you, they won’t order.
The Japanese company was very particular about who it wanted to deal with. They stipulated that they were looking for a well-established family firm. The Japanese placed great emphasis initially on the owners of firm, before moving onto the product, and then the order. The interviewee stated:

They wanted to know who they were dealing with, the stability of the company, the reputation of the company, who owned it. The company is 50-60 years old and a family company, which was a big advantage. They ran an independent credit check on us, all the time trying to work out if they could trust us.

Negotiations took nine months, with 11 conference calls to Tokyo plus faxes through the Mitsui Auckland office. The company got the order in June 1999 and delivered it in August. The negotiation process was long and often frustrating:

You can think you’ve closed an issue and then someone higher up can question it, then they’ll go back and re- look at it. Everything has to be black and white in the order.

However, the company built up a good rapport during negotiations and talked to the customer about funding to secure more products, which would enable the winery to bring forward the delivery of 15,000 cases. The interviewee noted:

All the time they were very concerned about quality. They also love to negotiate prices - they’re traders - you have to negotiate and be prepared to give away
$NZ5-10^2$ a case. Its all part of the philosophy, particularly if they’re on selling to other Asian markets, where they may need to take into account bribes. You must allow for kickbacks, a little bit for everybody throughout the chain. They aren’t greedy about it and they don’t always know what everyone else gets, but part of your pricing must take into account that they always want a little. You also negotiate point-by-point, unlike in Europe, where you’ll talk about a lot of things at once. The Asians focus on getting each point right before they move on.

Chu (2000) noted that the Chinese are used to bargaining and will also expect a few things extra thrown in with the deal. In China it is critical to build in some extra contingency costs to take account of this. This means that it is better to start with a higher margin to give the appearance that you’re giving the Chinese something. Being prepared to work with the customer is also important, and this helped the company understand the market and build up trust. For example the company were going to export their standard brand so they kept the same basic label design but translated it into Japanese except for the ‘Made in New Zealand’ part (which they were told to keep in English). However, the company also developed the label proofs and sent them up to Japan for approval, which as the interviewee noted: “They just loved.”

The view that one needed to approach the Asian market differently to other markets was supported by the experience of the company. The interviewee stated:

Asians think different. In Europe you need to find a wine distributor and that’s it. Each distributor has a clear strategy and focus, their return comes from focusing,
so they’ll sell only wine or alcohol. Their focus is on margins, and the price of the wine is negotiated by reference to a desired margin. In Asia they are ‘traders.’ They are brought up as traders and as a result they dabble in everything (as this spreads the risk). Moving products is what is important to them. They make smaller margins, in fact they don’t think in margins, they think in volumes - ‘If I can make a little on a lot, I’ll still make a lot of money’.

This point is critical. If you take a traditional sales focus in Asian wine markets, you may be heading for trouble. The Chinese have a saying - ‘Horse, horse. Tiger, tiger’. the meaning of which is “I am not sure if it is a horse or a tiger, but it has four legs and a tail.” In other words it will get by. Lack of quality control is a big problem in China, and Chinese managers and workers feel that Westerners fuss over nothing (Chu, 2000). For example, in 1997 a large Australian wine company sent several container loads of wine to China without paying attention to the structure of the channels (Snow, 1997). In effect their approach was to sell the product, and transfer responsibility for the brand to the buyer. The buyer did not understand the need for, or have the desired storage system for wine, and placed the wine in a warehouse with their other products. The warehouse lacked any form of temperature control. As the market for wine was oversupplied at the time, the buyer waited until the market picked up. The wine sat in the warehouse during all of summer. The wine was subsequently released onto the market in a spoiled condition, and was quickly rejected by consumers. The volumes of the Australian branded wine were such, that this episode did serious damage to the credibility of Australia as a wine producer (Sam Tolley, General Manager Australian Wine and Brandy Corporation). Compare this approach to the strategy undertaken by the interviewee:

3 This information came from a question and answer session on selling wine in China, at the 1999 Office International de la Vigne et du Vin (OIV) 25th Conference, Paris, France, June 19-23.
If you think that your focus on the relationship and market ends with the order, you’re dead. They [Asians] are traders. You need to follow through to find out where it will be stored, what will happen to your wine, where will it go, how it will be marketed. You must plan and you must retain ownership right through to the end consumer regardless of what country you export to, but especially in Asia.

Beverland (1999) has identified the importance of visiting export markets by wineries. In markets such as Asia, where initial sales are likely to be small, wineries may be tempted to put off visits until the market grows. This is unlikely to be a successful strategy. To be successful in these markets the interviewee noted:

You simply have to visit their markets and understand their customs. We need to remember that we’re selling in their market, on their back door step, so we have to be mindful of their customs. It is like when you visit friends, you visit them rather than impose on them.

Bretherton and Carswell (2001) identified the importance of visiting the Chinese market in order to understand their culture and language. They argued that personal visits were necessary to create trust between the relevant business parties. For example:

In China you are perceived as a guest, but really they’re watching you, sizing you up. You won’t get it right, but you must be prepared to learn, if they see that openness to learn, then you’ll do fine. For example I had never used chopsticks, they had put out a knife and fork for me. I requested chopsticks and just kept at it, kept learning, they appreciated that and commented on it. After dinner the
Governor said, ‘when you used your chopsticks you start with your head not your hand, you are very intelligent.’

This experience suggests that firms must invest in Asian markets as part of a long-term strategy. Snow (1997) identified how the failure of Australian companies to approach the South East Asian market with a long-term strategic view has effected the perception held by Asian (and ex-patriot) businesses in this region. Snow quoted one Hong Kong wine retailer:

It's just not good business to establish a market and then to forsake it [referring to Australian wineries who diverted wines from Asia to Europe due to poor crop levels in one vintage]. My experience is that I just can't get wines from traditional suppliers. I'm missing whole vintages because Australian producers are diverting stock to other markets. It's not a good long-term strategy. The French are acting differently and giving priority to Asia. They're consolidating and strengthening their market share by filling demand, not with top end wines but with generic wines from newer regions. (1997: pp. 288)

Snow (1997) noted that this strategy of diverting wines to other markets resulted in France regaining the 10 per cent of market share in Hong Kong that it had previously lost. The need to invest in the market was also supported by the New Zealand case, with the managing director highlighting the importance of being prepared to use letters of credit (which he described as: “A way of life in Asia”). The use of letters of credit only increases the risk to the seller, and without any real recourse to legal restitution should something go wrong, visiting markets is critical for establishing trust in the buyer. Investing in the market also includes working with the buyer to help them sell the winery's product (Beverland, 1999), as the Asian
wine market is still relatively immature. The interviewee identified what he called a ‘pipeline effect,’ which was described as:

You may get a large first order that sells quickly. You then another order that takes time to get into the normal trading channels and therefore your next order is a third of the original order. The reason is that you’re filling up the market. You need to plan for it. The middlemen have sold the products to the distributor but the product hasn’t sold to the consumer.

A similar effect was noted by speakers at the *First Australian Wine Marketing Conference* (Scott, 2000), where they argued that many Japanese buyers continued to place orders for wine, even though they couldn’t sell it, in order to save ‘face’ with the seller. In the end, they often gave the product away, or cancelled orders due to lack of demand. Hori (2000b) stated:

Wine stores still receive three free cases for every case of wine they purchased, sometimes five, depending on the brand and the volume. There is a story doing the rounds in Japan about a supermarket buyer who was offered 50 free cases of a lesser-known Chilean wine free when he brought ten. The next day he received 70 cases and, thinking the importer had made a mistake, telephoned the company, which told him there was no mistake; they had thrown in a further ten free. Alas, as a sweetener it left something to be desired. The market in Japan is so overstocked at the moment that the buyer had to decline the ten extra free cases since he had no space left to stock them. (Pp.52)
Liu and Wang (1999) are among a number of authors who argue that managing relationships with distributors is critical to success in Asian markets. Aulakh (2000) found that the difference between high and low performance in Japan was due to how you manage your relationships in the distribution channel. He recommended that relational rather than hierarchical distribution strategies result in higher performance. Failure to build a relationship may mean that your product either fails to get in front of the consumer or it gains commodity status by being placed in a discount chain.

Building upon their experience in Japan, the company followed up leads in Thailand, Taiwan and China. In Thailand they sold a number of products through a liquor store owner. The company used letters of credit for all their business, but admit that they were not dealing in big volumes. Due to the Asian Economic Crisis and the resultant tariffs on wine imports, the Thailand business ceased. In Taiwan the key product was a very sweet ‘Ice Wine’. The company used the same approach to labelling that they had with the Japanese and once again found it to be successful. The initial inquiry came from a cellar door visitor at the winery. The inquirer owned a liquor store in Taiwan and his family members had good connections with Taiwanese supermarkets. The company developed a good rapport with the Taiwanese. The interviewee admitted that it was a long process with the initial volumes being quite small. Due to the Asian Economic Crisis orders quickly dropped off but then rebounded as the economy grew. Due to high taxes and regulation on wine, Taiwan is a difficult market to enter. The interviewee stated:

You have to look at what they want and alter the product and style of wine for their palate. In Taiwan they like a very sweet product – ‘Dry’ in Asia would be ‘Sweet’ for us.
In China the company used a middleman from Hong Kong who had good connections into China. The middleman in Hong Kong was once again engaged in selling a bit of everything; so selling wine was just another avenue of trade. The interviewee flew over and met the Governor of the State and the Chief of Police because the Police controlled all the liquor stores (you need to get along with the Police in order to get the product in the store).

**DISCUSSION**

Schutte and Ciarlante’s (1998) research on Asian consumer behavior was based on two fundamental premises. Firstly, that consumer behavior is strongly influenced by culture. Secondly, that Asian culture is distinctly different from Western culture. Schutte and Ciarlante (1998) assumed that Asian cultures had more in common with each other than they had differences. Their conclusion that Asian culture is different was based upon the work of Hofstede and Trompenaars, the key points of which are set out below in Table I. They therefore argued that it was correct to speak of ‘Asian culture’ and ‘Asian consumer behavior’. In her recent book *The Asian Mind Game* (2000), Chin-Ning Chu identified the strong cultural, historical and philosophical ties that bind the people of South East Asia together. She noted that in many ways it is correct to talk about ‘Asians’ as one culture, although there were also important differences to consider.

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Insert Table I in here

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Following Table I, Asian consumers can be expected to place much greater value on personal relationships than on impersonal rules. Schutte and Ciarlante (1998) stated that Asian cultures place a great deal of focus on the context of each situation as opposed to the specific detail of
a transaction. This simply means that Asians tend to take longer to ‘get down to business’ than their Western counterparts. In societies with little history of formal legal contracts, trust based relationships are the only way of doing business (Wong and Tam, 2000). For example, in China human nature is viewed as intrinsically bad, and therefore unknown people are not to be trusted (Schutte and Ciarlante, 1998). In a business situation Asians will place a great deal of emphasis on knowing ones counterpart before entering into an agreement, as part of a risk reduction strategy. This is certainly illustrated in the case example, and indicates that wineries need to be prepared to invest significant resources in Asian markets if they are to be successful in the long term. Chu (2000) noted that written contracts do not have as much value in Asia as they do in the West. For Asians, Western attempts to put everything into a contract is an attempt to de-humanise business. A contract with Asians is more likely to be a memorandum of mutual obligations and responsibilities – which leave plenty of room for subsequent readjustment of the details. Whilst Asians understand Western needs for contracts, they need to feel that if something goes wrong, they can sit down with a real person and work things out. Again, the formation of trust-based relationships in the case illustrates the need for a relational rather than a contractual based business arrangement in Asia.

In Confucian based societies stability is highly prized. Confucius argued that through the correct management of interpersonal relationships stability could be achieved (Schutte and Ciarlante, 1998). Cultures in Asia place a great deal of emphasis on uncertainty avoidance and spend a great deal of time planning in order to reduce even the tiniest risk. It will be critical in this context to have a very detailed plan for exporting your wine into Asia with projections for at least the next ten years and contingency plans to account for possible poor crop levels. This desire for stability also means Asian firms tend to prefer to deal with older well-established firms than newer ones (as illustrated in the case example). Snow (1997) reported that France
and other European producers have been more successful than New World producers in selling wine in Asia. This issue relates to the achievement versus ascription element and the power distance elements of Table I. In our more egalitarian Western societies, respect and honour go with merit, i.e., they have to be earned, whereas in Asian societies status is awarded to non-merit related factors such as age, family, etc. Whereas Western business people place great importance on product quality without respect to age, gender or race, in Asia age tends to be viewed as valuable. Deference towards authority is perceived as upright and prudent (Schutte and Ciarlante, 1998). Older firms and businesses tend to be viewed as having proved themselves over a period of time and since they have survived, they have obviously delivered on their promises to customers. The importance of age, a greater emphasis on the collective as opposed to the individual, and the importance of family in Asian societies, give old family firms a significant advantage over newer firms when exporting to Asia. This barrier to entry may be overcome through the use of networking arrangements in an Asian country, and may have less effect in the wake of the economic crisis.

Confucianism places a great value upon learning, but little upon leisure. Therefore when Asians go on holiday, their ‘guilty’ feeling of taking a break leads them to undertake holidays with a strong educational element. As such, Asians may be more amenable to learning about wine than Westerners may. While the implications for wine tourism are obvious, there are also implications for advertising and promotion. Japan has one of the fastest growing wine education programs (Joseph, 1999), and forming relationships with educators to assist in promoting wine may be a good way to increase understanding of wine as well as brand awareness and loyalty. An education strategy also needs to focus on wine salespeople. Asian salespeople are used to having detailed product information and customers expect salespeople to have this. Because the customer is the acknowledged superior in any such relationship the
salesperson drops any pitch and just talks about the product, educating the customer, but they are highly influential in the purchase decision since to ignore the advice of one whom one has a relationship with would cause the customer to lose face (Schutte and Ciarlante, 1998).

CONCLUSION

The Asian market offers significant long-term potential to wineries that are prepared to invest time, effort, and patience (as well as money). A review of the research, as well as the experiences of the case study illustrates the beneficial effects of relationship-based strategies in Asian markets. This supports the view of Bretherton and Carswell (2001), as well as making a contribution to the field of relationship marketing. However, many questions remain. For example, recent research indicates that Asian consumers are changing their behavior in the wake of the economic crisis. Could it be that a more pragmatic approach to business will emerge? Or will it be that different market segments are more amenable to relationship marketing strategies, while other segments will be receptive to traditional mass marketing approaches? Finally, does the experience of the case study offer guidance for wine marketers in all market contexts? Recent research by Beverland (1999) and Lindgreen (2001), as well as demands by international retailers for closer relationships with suppliers of strongly branded wines (Geene et al, 1999) suggests that relationship-marketing in the wine industry may be the norm rather than the exception (it also suggest that relationships may be but one part of an overall marketing strategy). Further research is of course needed to address these and other relevant issues.
REFERENCES


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