

The Market Potential for The
Winery to Export Bottled
Wine to Mainland China

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Data Reimagined

中国大陆出口瓶装葡萄酒的市场潜力

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Executive Summary	1
Scope of the Analysis	1
Objectives	1
Assessment	2
Key Findings	3
Assumptions and Considerations	7
The Opportunity and Market Potential	8
Forecast	9
Market Potential	9
Return on Investment	10
The Winery	13
Consumer Profile	15
Mainland Chinese Market for Bottled Wine	26
Regulatory Environment	30
The Impact of the Anti-Unfair Competition Law on Chinese Wine Consumption	30
Machine Learning Methodology	33
Objectives	33
Assumptions and Model Inputs	33
Methodology	34

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Executive Summary

China's wine market size is expected to reach US\$23 billion (US\$30 billion) in sales revenue by 2021 with an average annual growth rate of more than 30 per cent, suggesting the strong wine-consumption potential of the world's most populous country, according to a recent report released by Vinexpo, one of the largest global exhibitions for wine and spirits, and the International Wine and Spirit Research.

It's a common phenomenon, also in developed countries, that when the economy does well, low-alcohol beverage becomes more popular –
Li Demei, a wine expert from the Beijing University of Agriculture.

Scope of the Analysis

Southwest Business Services, LLC has been retained by The Winery, a California company involved both in viticulture and winemaking. They want to enter an overseas market by setting aside 20 of their 90 acres under cultivation for export wine. Initially, they want to focus on the Chinese market. The owner speaks Chinese and has many connections in mainland China. It was decided to limit the analysis to the potential for bottled exports as opposed to bulk wine shipments since heightened brand visibility is also an objective.

Objectives

The analysis is undertaken to evaluate the potential for The Winery to enter the Chinese wine import market. This was the underlying premise for the analysis. To the greatest extent possible, this data is to include city/province figures as well. Specific objectives:

- The feasibility of exporting bottled wine to Mainland China with potential market share
- Potential return on investment

The Market Potential for The Winery to Export Bottled Wine to Mainland China

- Projection of the US import value of wine by city/province
- Determining the best Chinese target markets for imported bottled wine and wine sold on the Internet
- Three-year projections of US market value
- Three-year projections of market value for a new entrant into the market arena
- Development of a profile of Chinese wine drinkers by income and wine preference to derive the most likely target market based on consumer behavior.

Assessment

US exporters are usually reliant on export companies and distributors to get their products to retailers since the Chinese import system is a formidable one. The import of this is that most of the profit is realized at the distributor and retailer level: It is at these levels that the wine is marked up the most. An operation where one company owns all the verticals would make the most money. The value of imports is increasing exponentially but so is the stock of imported wine. Given the current risk factors in the Chinese import wine market, the anticipated return on The Winery's export concept will not harm the business--neither will it help.

The special circumstances here--the fact that only a portion of the Company's bottled wine will be exported--the return does not justify the time and money required to export the wine.

An alternative scenario would be to enter the market by initially selling wine over the Internet. The only startup expense here would be to develop a website and marketing campaign that was China-specific; and, to ensure that all Chinese import and Internet marketing regulations were met. While the revenue would likely be only 20% of the projected revenue for exports, the risk factors on many levels would be reduced or eliminated. This would enable The Winery to accrue additional revenue

The Market Potential for The Winery to Export Bottled Wine to Mainland China

without changing the original operating model. If it appeared later that exports might be something to explore, familiarity with the Chinese import system would make it far easier.

Key Findings

MARKET FORECAST FOR IMPORTED RED WINE INTO MAINLAND CHINA

China expects to become the second-largest market for wine by 2021, replacing the United Kingdom, as young consumers' preferences are evolving, experts said.

The rate at which red wine sales in China are projected to increase is staggering. There are many variables, however, that could change this picture. Increased tariffs initiated by either China or the US could dramatically change the sale price points as well as profit margins. Changes in Chinese government policy that favor domestic wines could make exporting to China less lucrative. Such considerations aside, the predicted growth in the Chinese market for red wine provides ample room for new entrants into the arena.

MARKET POTENTIAL

On the basis of both published industry information and the data examined for this study, there is little question that a market for bottled red wine exists in China now; and, that the market will continue to grow exponentially until the end of the decade. Projected figures indicate, predictably, that urban areas would be the best target markets. Just how viable the market is depends on the market price of wine in China, whether or not the market becomes saturated, competition, and the political climate.

E-COMMERCE

At present, Internet sales of wine in China constitute 20% of total US wine sales. Chinese online purchasing is expected to double by 2020.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Direct-to-consumer wine sales over the Internet enable producers like The Winery to sell at competitive prices because the distributor and retailer are eliminated. Even though there are Chinese regulations governing Internet sales, this option is one that should be explored.

TARGET MARKET

Two locations—Sichuan and Liaoning—were eliminated as potential target markets because the projections generated by the scored model were consistently negative in all categories. The results also indicated that the best target markets would be Guangdong, Shanghai and Beijing, in that order. Consumer preferences—in particular the overwhelming propensity for red wine—were part of the evaluation.

RETURN ON INVESTMENT

The return on investment was calculated based on the potential revenue and the operational model. In addition, external considerations such as the global political and economic situation were made part of the analysis.

REGULATORY ENVIRONMENT

At present, only the Anti-Corruption Laws are believed to have any impact on the importation of US bottled wine. It appears that since they were implemented, the market has normalized as it has shifted from one dependent on government purchases to one that is based on individual consumers. The latter is a market that is growing exponentially. The specter of scenario-altering tariffs exists but is not in place at this time.

BARRIERS TO ENTRY

Cultural and Language Differences

Effective communication with the Chinese consumer is a major challenge. Brands need websites in fluent Chinese providing updated

The Market Potential for The Winery to Export Bottled Wine to Mainland China

information. Since China does not have a western food culture or related vocabulary, producers should consider marketing with a China-specific wine vocabulary. Additionally, premium packaging conveying luxury and pedigree are highly valued by Chinese consumers.

Although Google, Facebook, and Twitter are banned on the mainland, the equivalent of the latter two, Weibo and Renren, are enormously popular. Market entrants, willing to hire Chinese social media firms versed in these channels can expose their products to millions of users. A recent analysis of upper middle-class drinkers of imported wine revealed that 75% of them research wine online, visiting sites like Winechina.cn, and 62% say they use social media as a source. The online channel is seen as cost-effective, convenient, and trustworthy.

Complex Distribution System

China has been called the wild west of the global wine and spirits market for good reason: the distribution path to the consumer is varied and unlike anything western companies have dealt with previously. This was especially true when the first import firms struggled to establish and develop distribution channels from scratch, having to hire and train employees who had never tasted wine.

Consumer Education

Education, from consumer to industry, will greatly enhance the sophistication of the market, and major cities will continue to set trends as new products gain favor. Despite the loss of the high-end market in the short-term, luxury goods will remain in demand so long as millionaires and billionaires continue to be made in China. Meanwhile, the market for good quality, mid-range and lower priced wines will broaden as second tier cities and off-trade retail gain share. Distribution will remain a barrier to entry, but channels to reach the various markets will, hopefully, become more seamless.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Documentation

The import of wine requires the presentation of detailed test reports and certificate of conformity with the regulations of China (in particular, about additives allowed); from 2013, it is also required to provide a certificate of analysis carried out by a qualified laboratory in order to check that levels of phthalates do not exceed the permitted limits.

COMPETITION

As in any industry, competition from cheaper products must be considered. While the Chinese wine industry itself is competition, it is not competitive. The quality of the wine is not the only factor here. Chinese wine is without question cheaper in price but it does not have the *snob* appeal, the status that comes with drinking imported wine. There is also competition from countries such as Spain and Australia that are selling certain of their wines at very reduced prices.

China's counterfeiting—a major competitive consideration—has created consumer trust issues: A survey in January found 44% of respondents feared buying fake wine in all price categories. Counterfeiters target inexperienced consumers with little knowledge of how a wine should taste, especially beginning collectors eager to purchase wines for status or for gifts (in which case the wine might never be tasted). To combat counterfeiting, ASC (ASC Fine Wines) has developed a QR code and hologram to affix on the neck of bottles and can be scanned with a smartphone to give the consumer product information and shipping history. They import the codes and keep them under "lock and key" until affixed in China. ASC expects to apply these to 10 million bottles.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Assumptions and Considerations

- Import figures were based on Chinese Census Import figures
- Figures for e-commerce bottled wine sales, 20% of the total value, were derived from Amazon China sales
- No historical figures existed for individual locations as the basis for revenue or market projections—or projected penetration rates
- Projections regarding individual locations were key to creating a marketing strategy
- Revenue and market projections were critical to making an informed decision about whether or not to enter the market
- Historical data existed for total bottled wine imports but not for city or provincial locations
- Chinese preferences for bottled red, white or sparkling wines—the ones for which figures existed—were available but only for the past year; this reflects the recent exponential increase in bottled wine consumption
- Wine consumed was the same statistically across all age groups between 20 and 60 so this was not considered for inclusion in the model
- To establish global competition for the market, figures for total wine imports by country was calculated over the same period.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

The Opportunity and Market Potential

It is difficult to resist the lure of a market with the growth potential of China's bottled wine market. The tables below are a high-level overview of the potential for the entire market. That it is a lucrative market is clearly shown.

	US Wine Import Value		US Wine Import Quantity		Value of Chinese Internet Wine Purchases	
	Input	Scored	Input	Scored	Input	Scored
Total	\$78,667,031	\$197,246,336	14,190,217	35,579,944	\$8,653,373	\$21,697,102
Guangdong	\$28,871,258	\$68,870,904	5,207,892	1,243,159	\$3,175,838	\$7,575,801
Shanghai	\$23,360,627	\$54,664,284	4,213,867	9,860,522	\$2,569,669	\$6,013,073
Zhejiang	\$6,002,935	\$9,915,483	1,082,829	1,788,587	\$660,323	\$1,090,703
Fujian	\$4,329,101	\$5,600,275	780,897	1,010,195	\$476,201	\$616,030
Beijing	\$4,322,748	\$5,583,898	779,752	1,007,241	\$475,502	\$614,229
Tianjin	\$3,957,490	\$4,642,249	713,865	837,384	\$435,324	\$510,647

	Scored Value of US Imports	2018	2019	2020
Total	\$184,349,808	\$219,376,272	\$261,057,763	\$310,658,738
Guangdong	\$64,447,716	\$76,692,782	\$91,264,411	\$108,604,649
Shanghai	\$51,117,896	\$60,830,296	\$72,388,053	\$86,141,783
Zhejiang	\$9,383,610	\$11,166,496	\$13,288,130	\$15,812,875
Fujian	\$5,353,224	\$6,370,337	\$7,580,701	\$9,021,034
Beijing	\$5,337,928	\$6,352,134	\$7,559,040	\$8,995,257
Tianjin	\$4,458,431	\$5,305,533	\$6,313,584	\$7,513,165

	Scored Quantity of US Imports	2018	2019	2020
Total	33,253,626	\$39,571,815	\$47,090,460	\$56,037,647
Guangdong	11,625,292	\$13,834,097	\$16,462,576	\$19,590,465
Shanghai	9,231,801	\$10,985,843	\$13,073,153	\$15,557,053
Zhejiang	1,692,647	\$2,014,249	\$2,396,957	\$2,852,379
Fujian	965,632	\$1,149,102	\$1,367,432	\$1,627,244
Beijing	962,873	\$1,145,819	\$1,363,525	\$1,622,594
Tianjin	804,227	\$957,030	\$1,138,865	\$1,355,250

The Market Potential for The Winery to Export Bottled Wine to Mainland China

	Scored Value of Wine Purchased by Chinese Over the Internet	2018	2019	2020
Total	\$20,278,486	\$24,131,398.34	\$28,716,364.02	\$34,172,473.19
Guangdong	\$7,089,251	\$8,436,208.10	\$10,039,087.63	\$11,946,514.28
Shanghai	\$5,629,669	\$6,699,306.11	\$7,972,174.27	\$9,486,887.38
Zhejiang	\$1,032,197	\$1,228,314.79	\$1,461,694.60	\$1,739,416.57
Fujian	\$588,855	\$700,736.97	\$833,877.00	\$992,313.63
Beijing	\$587,172	\$698,734.80	\$831,494.41	\$989,478.35
Tianjin	\$490,428	\$583,608.84	\$694,494.52	\$826,448.48

(For a more detailed description of how this was done, please refer to the Methodology section.)

Forecast

The scored model generated a projected revenue increase of 42%. This is in line with industry expectations. Revenue projections were based on the CAGR for three years. Three years was the timeframe because that was the point that revenue was expected to increase by 42%.

Market Potential

The calculated market potential for The Winery is shown below:

	Base Year	2018	2019	2020
	Bottles/ Cases	Projected Revenue	Projected Revenue	Projected Revenue
Total	28,800/2,400	\$180,288	\$214,543	\$255,306
Guangdong	13,248/1,104	\$82,935	\$98,693	\$117,445
Shanghai	10,508/876	\$65,782	\$78,280	\$93,154
Zhejiang	1,929/161	\$12,075	\$14,370	\$17,100
Fujian	1,100/92	\$6,889	\$8,198	\$9,755
Beijing	1,097/91	\$6,869	\$8,174	\$9,727
Tianjin	917/76	\$5,737	\$6,827	\$8,125
Price Per Case		\$75.12	\$89.39	\$106.38

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Notes:

1. The CAGR to 2020 was calculated at 19%. This calculation was in line with both the scored model and published industry projections.
2. The average current value of a wholesale imported bottle of wine, \$6.26, was increased incrementally by 19% a year.
3. Base year quantity of shipped cases was based on the acreage set aside for export wine and the number of cases that acreage yielded.
4. The base year revenue projection was based on the number of cases available for shipment.
5. While the price per bottle was increased year-over-year, the case quantity was not since no increase in that was anticipated.

Return on Investment

Two scenarios were developed to evaluate the return on investment for the proposed venture. The first is an assessment of what the revenue projection might look like if the current operating model continued unchanged for the next three years. The other scenario assesses what would likely happen if the operation were altered to include an export component that makes 20 of the 90 acres a set aside for exports.

SCENARIO ONE – UNCHANGED OPERATIONAL MODEL

Revenue projections made for the current model reflect a modest two percent annual increase over the next three years. With this model, the current profit margin is seven percent and is expected to rise to 17% in three years. This model does assume a domestic market that remains stable or increases in size.

SCENARIO TWO – OPERATIONAL MODEL WITH AN EXPORT COMPONENT

Revenue projections for this model were based on the scored model created with a linear regression calculation. Once the base figures were established, revenue projections were based on the projected 42% increase in the Chinese market for red wine by 2020 and on the current

The Market Potential for The Winery to Export Bottled Wine to Mainland China

average per bottle value of \$6.26. This model assumes that the market increases by 42% unchecked.

PROJECTED REVENUE WITH AND WITHOUT EXPORT MODEL



As the chart above shows, revenue with the export component would not begin to equal that of continued operation unchanged until year six. This change is enough to bring the current profit margin to zero. If considered in isolation, the export component has an excellent profit margin of 20%, rising to 27% over three years. The fact remains, however, that it cannot be considered in isolation.

The return on investment was calculated based on how an export component would affect the existing model. This was done because the success of the export operation is contingent on the continued existence of the current operation. No additional cost is anticipated to implement the export component except for the addition of an export agent's fee and an increase in the marketing allocation. This was taken into consideration.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Also, changes in the current political or economic climate could alter the revenue projections for either Scenario One or Scenario Two. Necessarily, this makes the alternative scenario of initially selling wine over the Internet far more attractive.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

The Winery



The Winery is an established 162-acre estate vineyard (1993) in the heart of the central Coast wine region. Presently 107 rolling acres are planted in Petite Sirah, Tempranillo and Cabernet grapes with room to plant approximately 36 additional acres of premium varietals of grapes. The annual grape production totals five to six tons per acre.

GRAPE VARIETALS AND TONNAGE

Varietals	Acreage	Tonnage
Cabernet Sauvignon	33	150
Merlot	45	354
Petite Syrah	12	55
Totals	90	409

The Market Potential for The Winery to Export Bottled Wine to Mainland China

The Winery is licensed to purchase bulk to bottle and label under its own label and has a TTB Winegrowers license enabling the grower to label and sell processed grapes to the public. All wine produced is bottled for retail or wholesale. The Winery markets the wine under two separate labels.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Consumer Profile



Source: Wine Intelligence, Chinese Wine Market Landscapes Report June 2017

According to the China Wine Market, as of February 2017, there are 48 million “wine lovers” in China. This is mainly due to the significant western influence in the major cities in China and also, due to the developing economy and the growing number of upper-middle class Chinese citizens. Being the second largest market in the world, no investor or business leader can ignore the increasing influence of its customers.

The preferences and common behavior of China’s 1.38 billion people has the potential and ability to sway the demand and shift the trajectory of global consumer spending regardless of the industry or market sector. The wine industry is no exception. Many wine producers from all over the world have been seizing this opportunity and expanding their business in the Middle Kingdom.

Changes in consumer preference in the wine market are obvious, with consumption gradually becoming more rational in recent years. Consumers now attach greater importance to price-performance ratio

The Market Potential for The Winery to Export Bottled Wine to Mainland China

and no longer go after high price products alone. Today wine is consumed on private occasions more often and as long as it suits one's taste then it is good. Besides, since wine is often consumed at gatherings with good friends and close relatives, the choice of high price-performance products can show that one is discerning and makes the right purchase."

China Wine Market has conducted market research and they found that the number of Chinese consumers from the urban upper-middle class drink wine at least twice a year, went from 38 million in 2014 to 48 million in 2016. This is 11% of the adult urban population aged 18 to 54 years-old. If a glass of wine is 150ml and if these 48 million Chinese wine lovers drink one glass a week, there is a lot of wine to import in the upcoming years.

In fact, it has been predicted that in the year 2020, the number of wine lovers will increase to around 70-80 million (Chinese wine drinkers who consume wine at least twice a year). Out of all the categories, there will be a growing demand for middle-priced wines and this market is expected to increase by roughly 65% over the upcoming five years. Simultaneously, the growth for lower-priced wines will decrease by seven percent and higher-priced wines sales will increase by 24% respectively.

Chinese wine consumers are also gradually becoming younger over the years. Over 40% of imported wine consumers in China are aged 18 to 29. This trend with great potential has attracted different wine-producing countries to the growing Chinese market, including countries such as France, Argentina, Chile, Australia, Italy and Spain.

According to a consumer survey commissioned by HKTDC Research on mainland wine consumption, mainland consumers prefer red wine, and the occasions for consumption are many, with drinking at home accounting for a large percentage. White wine, rosé and champagne/sparkling wine are mostly consumed at banquets and social

The Market Potential for The Winery to Export Bottled Wine to Mainland China

gatherings. Mainland consumers also buy wine as gift, usually for friends and relatives and occasionally for business contacts.

Category of Wine Purchased in the Past Six Months, by City

(% of respondents)	Overall	Beijing	Shanghai	Guangzhou	Chengdu	Wuhan	Shenyang	Nanjing	Harbin	Suzhou	Yantai
Red wine	96	97	98	97	98	96	98	97	95	93	93
White wine	40	41	41	43	36	41	32	33	45	46	44
Champagne/sparkling wine	37	41	35	50	43	32	29	31	36	32	35
Rosé	23	20	18	28	23	21	27	13	33	24	28

The present survey divides wine into four categories, namely, red wine, white wine, rosé and champagne/sparkling wine, with red wine favored by most respondents. Overall, 96% of respondents have bought red wine and 40% have bought white wine in the past six months. The proportions of respondents from Guangzhou (50%) and Chengdu (43%) buying champagne/sparkling wine are significantly higher than the overall figure of 37%. There are also more respondents buying champagne/sparkling wine than white wine in these two cities.

According to the survey, the overall proportion of respondents buying rosé (23%) is lowest, but that of respondents from Harbin buying this type of wine (33%) is significantly higher than those from other cities, indicating that people in different cities have different wine preferences.

In the past, wine drinking was regarded as being for social occasions and an embodiment of personal lifestyle but is seen more as a casual drink these days. The survey found that, overall, "health" (77%) was cited as the primary reason for drinking wine. The percentage is highest among those aged 31-40 (84%). Among female respondents, 61% said that they drink

The Market Potential for The Winery to Export Bottled Wine to Mainland China

wine for “beauty” reasons as opposed to only 28% for their male counterparts.

Category of Wine Purchased in the Past Six Months, by Respondent Group

Category of wine (% of respondents)	Overall (2,400)	Gender		Age				Monthly household income (RMB)		
		Male	Female	20-30	31-40	41-50	51-60	8,000-14,999	15,000-19,999	20,000 and over
		(1,200)	(1,200)	(660)	(580)	(580)	(580)	(669)	(787)	(944)
Red wine	96	97	96	95	97	96	97	98	95	96
White wine	40	41	39	41	37	42	40	35	40	43
Champagne/ sparkling wine	37	35	39	46	39	31	28	33	36	40
Rosé	23	25	21	24	18	29	22	14	21	32

There is no obvious difference between different groups in their preference for red wine and white wine, although the survey found more young respondents buying champagne/sparkling wine than respondents in the older age groups. In the past six months, the proportion of respondents of the 20-30 age group buying champagne/sparkling wine (46%) is markedly higher than that for the 51-60 age group (28%).

Respondents' monthly household income also influences wine purchase patterns. For example, the percentage of respondents with a monthly household income of RMB20,000 or more who had bought white wine, champagne/sparkling wine and rosé was much higher than that of respondents with a monthly household income of RMB8,000-14,999.

Eighty percent of respondents from Wuhan said that their purchase frequency had increased in the past two to three years, the highest percentage among the surveyed cities. The percentage was lowest for

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Shanghai, with only 71% of respondents saying that their purchase frequency had increased. This is probably because the wine market is more mature in Shanghai than other cities, hence there is a lower growth rate in purchase frequency.

Purchase Frequency Growth, by City

(% of respondents)	Overall	Beijing	Shanghai	Guangzhou	Chengdu	Wuhan	Shenyang	Nanjing	Harbin	Suzhou	Yantai
Red wine	63	61	57	60	68	65	66	55	70	62	63
Champagne/sparkling wine	17	21	17	24	19	19	11	14	18	14	13
White wine	16	13	15	20	14	16	12	16	19	23	18
Rosé	11	10	9	12	7	10	10	8	16	14	16
No increase	21	22	29	19	20	15	20	28	18	17	18

It is noteworthy that respondents from Harbin show a bigger increase in purchase frequency for red wine (70%) than the overall average of 63%. The increase in purchase frequency for rosé for respondents from Harbin (16%) and Yantai (16%) is also greater than the overall average of 11%. The percentage of respondents from Harbin (33%) and Yantai (28%) buying rosé in the past six months is also considerably higher than for other surveyed cities, suggesting that consumers in these two cities have more of a taste for rosé than consumers in other cities.

Respondents in the 20-30 age group show a higher purchase frequency growth for champagne/sparkling wine (22%) than the overall average (17%). The purchase frequency growth for rosé among respondents in the 41-50 age group (15%) is also markedly higher than that of respondents

The Market Potential for The Winery to Export Bottled Wine to Mainland China

from other age groups. There is also a difference in the purchase frequency growth for wine for consumers of different age groups.

Main Category of Wine Consumed by Respondents, by City

(% of respondents)	Overall	Beijing	Shanghai	Guangzhou	Chengdu	Wuhan	Shenyang	Nanjing	Harbin	Suzhou	Yantai
Red wine	85	87	86	83	86	81	87	90	84	80	82
White wine	6	5	5	5	5	8	5	4	4	11	9
Champagne/sparkling wine	6	4	6	8	5	6	4	5	7	4	5
Rosé	4	3	2	3	4	5	3	1	4	6	6

Eighty-two percent of respondents with a monthly household income of RMB20,000 or more have increased their wine purchase frequency compared with two to three years ago. This percentage is higher than that of respondents with a monthly household income of RMB8,000-14,999 (76%), indicating that the higher the monthly household income, the higher the purchase frequency growth rate.

Main Category of Wine Consumed, by Respondent Group

(% of respondents)	Overall (2,400)	Gender		Age				Monthly household income (RMB)		
		Male (1,200)	Female (1,200)	20-30 (660)	31-40 (580)	41-50 (580)	51-60 (580)	8,000-14,999 (669)	15,000-19,999 (787)	20,000 and over (944)
Red wine	85	85	85	82	88	85	85	88	83	83
White wine	6	6	6	5	5	6	8	5	6	7
Champagne/sparkling wine	6	4	3	9	5	5	3	5	7	5
Rosé	4	4	7	4	3	4	4	1	4	5

The Market Potential for The Winery to Export Bottled Wine to Mainland China

In this survey, respondents were only allowed to choose one category as the most often consumed wine. Red wine was chosen by most respondents (85%), followed by white wine (6%) and champagne/sparkling wine (6%). Only 4% of respondents chose rosé. This is probably because red wine has a longer market presence on the mainland and is therefore more prevalent and popular. There is not much difference between respondents' choice in the surveyed cities. Red wine is the top choice of respondents of different groups regardless of gender, age and income.

Main Reason for Drinking Wine, by City

(% of respondents)	Overall	Beijing	Shanghai	Guangzhou	Chengdu	Wuhan	Shenyang	Nanjing	Harbin	Suzhou	Yantai
Health needs	77	80	78	79	78	76	76	82	73	72	69
Change in preference, likes taste of wine	53	58	50	54	51	42	58	49	58	54	60
Socialise	51	44	48	51	50	58	46	58	50	55	48
Embodiment of quality life	48	47	54	50	49	44	47	42	48	50	51
Beauty	45	44	45	39	45	49	49	43	42	46	46
Trendy, more and more people drink wine	26	26	24	27	27	30	24	25	28	25	27

Mainland consumers' attitude towards drinking wine has changed in recent years. In the past people mainly drank wine on business or social occasions, now it is seen as being good for health. "Red wine is healthier because it has anti-oxidant substances which may prevent cardiovascular diseases" and "can help cells fight oxidation and is good for health" are some of the reasons given by participants in focus group discussions.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

The questionnaire survey found that mainland consumers drink wine mainly for health reasons and not because it is trendy. 77% of respondents said that they drink wine for health reasons, 53% said that their preference has changed and they have grown to like the taste of wine. 51% of respondents say they drink wine to socialize, while only 26% say they drink because it is a trendy thing to do.

Main Reason for Drinking Wine (% of respondents)	Overall (2,400)	Gender		Age				Monthly household income (RMB)		
		Male (1,200)	Female (1,200)	20-30 (660)	31-40 (580)	41-50 (580)	51-60 (580)	8,000-14,999 (669)	15,000-19,999 (787)	20,000 and over (944)
		Health needs	77	77	76	70	84	74	80	82
Change in preference, likes taste of wine	53	57	50	54	52	54	53	52	54	54
Socialise	51	54	47	56	48	53	45	52	50	50
Embodiment of quality life	48	55	42	46	45	49	53	44	48	52
Beauty	45	28	61	48	46	43	42	44	46	44
Trendy, more and more people drink wine	26	29	23	27	25	28	26	26	26	27

Many media reports say that wine has anti-aging and anti-oxidizing benefits and can help people sleep better. Some women drink wine for beauty reasons. The survey found that 61% of female respondents say they drink wine mainly for beauty, a percentage markedly higher than for male respondents (28%). On the other hand, 55% of male respondents say they drink wine mainly because it is an embodiment of quality life.

Eighty-four percent of respondents in the 31-40 age group say they drink

The Market Potential for The Winery to Export Bottled Wine to Mainland China

wine mainly for health reasons, a percentage markedly higher than that for other age groups. Eighty-two percent of respondents with a monthly household income of RMB8,000-14,999 say they drink wine mainly for health reasons, a percentage considerably higher than that for respondents with a monthly household income of RMB20,000 or more (72%).

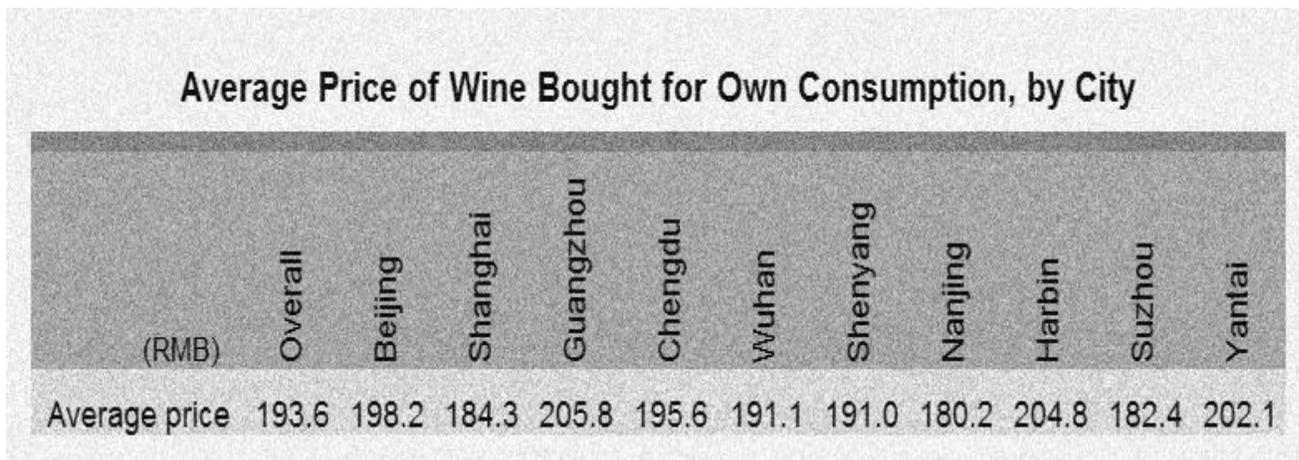
Red wine is consumed on more occasions than any other category, with over 50% of respondents saying that they drink red wine at home, at social gatherings and when dining out. White wine is mainly consumed at banquets (31%), while champagne/sparkling wine (33%) and rosé (21%) are mainly consumed at social gatherings. 50% of respondents say they seldom drink rosé, probably because the mainland market is dominated by red wine and consumers hardly notice the presence of rosé.

(% of respondents)	Red wine	White wine	Champagne/ sparkling wine	Rosé
Home	74	28	21	17
Social gathering	66	30	33	21
Dining out alone or with family	58	24	20	19
Banquet	54	31	32	19
Business event	52	28	31	18
Seldom drink	0	31	32	50

Respondents are becoming more rational when buying wine for own consumption. The majority of respondents (47%) pay RMB101-200 for a bottle. Overall, the average price paid by respondents for a bottle of wine for their own consumption is RMB193.6. The average price paid for a

The Market Potential for The Winery to Export Bottled Wine to Mainland China

bottle of wine for own consumption is higher among respondents from Guangzhou (RMB205.8), Harbin (RMB204.8) and Yantai (RMB202.1), all exceeding RMB200 a bottle.



The survey found that the average price paid by female respondents (RMB196.3) for their own consumption is slightly higher than that paid by male respondents (RMB191.0). Younger respondents are more receptive to wine of higher prices, because the average price they pay for a bottle of wine for their own consumption (RMB205.1) is higher than that paid by other groups. As monthly household income increases, the price respondents are willing to pay to buy wine for own consumption also goes up.

Chinese consumers are without a doubt one of the most complicated to comprehend and hard to satisfy crowds in the world. As previously mentioned, young Chinese wine consumers are likely to conduct thorough research online and on winery websites before purchasing wine online. Justin Cohen from Ehrenberg-Bass Institute has said that, "most Chinese consumers prefer to choose a brand they know, they've tried before or has been recommended by friends and family." Out of the 38 million urban aged 18- to 54-year-old upper-middle class imported wine drinkers, 88% actively use the internet. Moreover, 69% of them search for

The Market Potential for The Winery to Export Bottled Wine to Mainland China

wine information online and 49% purchase wine online. Thus, it can be concluded that roughly one out of two wine consumers in China purchase their wine online.

Just like many Asian consumers, Chinese consumers are easily influenced by high-end foreign brands. They tend to *play it safe* by purchasing only from brands and companies they have heard of before, which makes it hard to earn Chinese consumer's trust. However, the bright side is that after you gain their trust once, it is easy to maintain customer loyalty.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Mainland Chinese Market for Bottled Wine

Mainland China is one of the world's largest markets for imported wine. With a population of 1.38 billion, a burgeoning middle class and modernizing consumers, it presents enormous opportunities for Australian wine brands and businesses. China is rapidly changing and it's important to keep abreast of the latest trends and insights to grow and harness its market potential.

The increasing presence of consumers with a knowledge and preference for foreign wines, combined with the growing middle-class and the Chinese government's plan to improve access to China's interior is resulting in a growing market for wine in China.

Region	Cities featured in Vinitrac® China	Preference for red wine	Preference for white wine
North	Beijing Shenyang Zhengzhou	Style: dry, fuller-bodied Flavour: blackcurrant, fresh Chinese wolfberry, dried Chinese red date	Style: Fuller-bodied, dry Flavour: mango, tropical fruit, apple
East	Shanghai Hangzhou	Style: rich, fruity, earthy Flavour: Chinese waxberry, blueberry, cranberry, raspberry	Style: light, crisp Flavour: vanilla, pomelo, creamy
Central	Wuhan Changsha	Style: mellow and rich, smooth Flavour: strawberry, berries, Chinese black tea	Style: refreshing, smooth, heavy(-bodied) Flavour: lemongrass, tropical fruit, pear
West	Chengdu Chongqing Guiyang	Style: light, sweet Flavour: blackberry, raspberry	Style: fruity, crisp, sweet Flavour: honeydew melon, nutty aromas
South	Guangzhou Shenzhen	Style: fresh, juicy, oaky Flavour: strawberry, vanilla, clove	Style: soft, juicy, sweet Flavour: honey, jasmine tea, citrus

Imported wines hold the highest volume market share in the tier 1 cities of Beijing, Guangzhou, Shanghai, and Shenzhen, where there is the strongest presence of expatriates, western-educated young professionals and consumers who have a knowledge and preference for foreign wines. Combined, these cities account for 53% of the volume of imported wine sales.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

While locally produced baijiu has always been a popular alcoholic beverage, increased household incomes are allowing consumers to enjoy a wider variety of alcoholic beverages, such as wine. Imported wines have traditionally been seen as a status symbol and considered a crucial element of doing business; however, the new generation of wine consumers is also drinking wine as part of their social life outside of work. This consumer segment mainly consists of graduates working in high-earning professions in their late 20s and early 30s.

Elderly consumers tend to be more price-sensitive, while middle-young and middle-aged consumers are more concerned with the concept of “face” and will pay more on a particular brand in order to demonstrate dignity, honor and pride. Chinese consumers also tend to be more concerned about safety due to numerous food and product safety issues exposed in the media. These concerns contribute to the attractiveness of foreign brands, which are perceived to be safer and therefore more trusted.

The still wines category is the most prevalent among Chinese consumers, representing approximately 96.8% of the total wine value in 2016, followed by fortified wine with 1.8% value market share. Red wine, which represents about 75.2% of the total volume of still wines, is particularly popular because of its perceived health benefits and the significance of the color red in Chinese culture, which represents wealth, power, and good luck. Although rosé wine is the smallest segment within the still wines category in terms of volume, it has increased in volume by 105% from 2012 to 2016.

STRATEGIC POSITION OF US WINE EXPORTERS

US wine sellers have big advantages in China. Food safety is a key concern — clients in China have some 30,000 *personal shoppers* in Australia alone

The Market Potential for The Winery to Export Bottled Wine to Mainland China

to source items like vitamins and baby formula — and US products are typically deemed high quality. US producers also tend to use grapes that consumers are most likely to know, such as Cabernet Sauvignon, Merlot and Chardonnay. And the US is a key destination for Chinese tourists, students and workers, thus providing exposure to American culture and products, including wine. Even those who do not visit tend to know quite a bit about the US, certainly more than the other way around.

There have also been intriguing US wine promotions in China. A shining example is the 21-city California wine master class tour by The Wine Institute from mid-2015 to mid-2016, followed by a second tour last year. That got US wines to key opinion leaders in emerging markets far beyond Beijing and Shanghai—more than 100 cities in China now have a population of over one million.

Along with the master classes, the Wine Institute has organized wine fair pavilions, export tours for wineries, and tasting events for trade, consumers and key opinion leaders, including at the US Embassy in Beijing. Last year, it organized a six-week promotion with restaurant chain Element Fresh, which specializes in California-style food in a dozen cities. Other US wine entities have also tapped the China market, most notably Napa Valley Vintners.

WINE INTELLIGENCE – KEY INSIGHTS

Key insights from Wine Intelligence’s latest research on China (Source: Wine Intelligence, Chinese Wine Market Landscapes Report June 2017) included:

- There are now an estimated 48 million urban upper-middle class drinkers of imported wine in China
- Growing disposable income, coupled with improving distribution logistics for wine, has enabled access to wine in lower tier cities,

The Market Potential for The Winery to Export Bottled Wine to Mainland China

supporting growth in imported wine sales

- Increasing numbers of consumers are purchasing wine for personal consumption, rather than as gifts, and the flavor of wine is growing in importance as a key driver of wine choice
- There is continuing growth in red wine sales, with consumers more typically favoring fruit-styled, softer wine with lower tannin and acidity
- There is developing demand for white wine, particularly aromatic whites such as Riesling, Sauvignon Blanc, Chardonnay, Chenin Blanc and Moscato
- The evolving market has been driven by a diversifying base of wine consumers, as younger, more experimental and open-minded consumers start drinking wine
- Wine preferences vary by region within China. People in the east prefer earthy, rich reds; those in the west favour elegant, soft styles; those in the north look for bold, drier reds; and those in the south prefer smoother red styles
- There is an ongoing shift to online purchasing, driven by ease of access to wine information and recommendations, supported by lower prices
- There has been an increase in the number of wines available and listed in restaurants and bars, coupled with a reduction in pricing
- There is an increasing acceptance of screwcap for wines at lower prices, although there is more resistance for red wine under screwcap for gifting occasions.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

Regulatory Environment

China's trade regulations covering all imported goods have been in effect for many years. Although they are at times amended and updated, they are not considered here because at present they do not directly affect the importation or consumption of US bottled wine. China's anti-corruption law does not directly affect the importation of US bottled wine in that it does not prohibit it or restrict the amount that enters the country. The law has, however, affected Chinese wine consumption and the market price of wine as a result.

The Impact of the Anti-Unfair Competition Law on Chinese Wine Consumption

THE ANTI-UNFAIR COMPETITION LAW OF THE PRC



China's anti-corruption provisions are largely contained in the Anti-Unfair Competition Law and the Criminal Law. The former prohibits unfair conduct in commercial settings, while the latter criminalizes bribery in the public sector, extortion and money laundering. The Criminal

Law also prohibits bribery of foreign officials, bringing China's anti-corruption legislation in line with other strict anti-corruption legislation. The Anti-Unfair Competition Law prohibits, inter alia, commercial bribery punishable by economic and administrative sanctions. Serious offences may be subject to criminal investigation. Prohibited acts of commercial bribery include giving bribes for the purpose of selling or purchasing

The Market Potential for The Winery to Export Bottled Wine to Mainland China

goods and receiving bribes in the course of selling or purchasing. Fines range from RMB (Renminbi) 100,000 to twice the amount of the fine and illicit income is confiscated.

THE CRIMINAL LAW OF THE PRC

The Criminal Law prohibits giving and receiving money or property – including cash, items and proprietary interests – to obtain an undue benefit. Proprietary interests have been extended to cover material interests such as provision of housing renovation, the release of debt or other benefits such as membership services or travel. Bribery is distinguished by ‘official bribery’ (‘working personnel of the State’) and ‘non-official bribery’ (‘personnel of state organizations not engaged in public services’ or ‘working personnel of private companies’).

Penalties for the offence of bribery include fines and the confiscation of property and imprisonment and the death penalty. Companies can be held liable for the bribery of state personnel or their close relatives.

Commercial bribery is prosecuted if the bribes exceeds RMB 60,000. Commercial bribery exceeding RMB 60,000 can result in imprisonment of not less than three years, while bribes above RMB 2 million can result in a prison sentence ranging from three to ten years.

OFFICIAL BRIBERY REQUIREMENTS

Involvement of ‘working personnel of the State’.

Value Threshold

Individual: RMB 10,000 – more than RMB 5 million.

Company: RMB 200,000 or more given in return for an improper benefit.

NON-OFFICIAL BRIBERY REQUIREMENTS

Involvement of ‘non- working personnel of the State’ or ‘working

The Market Potential for The Winery to Export Bottled Wine to Mainland China

personnel of private companies’.

Value Threshold

Company: RMB 60,000 – RMB 2 million or more given in return for an improper benefit.

Machine Learning Methodology

This description deals with the machine learning part of the analysis, which complements the other quantitative and qualitative elements that made up this study.

Objectives

The machine learning part of the analysis was undertaken to answer the following questions in the context of current Chinese wine consumption. Determining the potential for entering this market was the underlying premise for all queries. As the analysis evolved, other questions were answered but these were the core questions at the outset:

1. Prediction of the US import value of wine by city/province to provide the basis for determining the best Chinese bottled wine target markets, determining market potential and generating three-year revenue projections.
2. Prediction of the US import value of wine purchased on the Internet by city/province to provide the basis for determining the best target markets, determining market potential and generating three-year revenue projections.
3. Profile of Chinese wine drinkers by income and wine preference to derive the most likely target market based on consumer behavior.

Assumptions and Model Inputs

- Import figures were based on Chinese Census Import figures
- Figures for e-commerce bottled wine sales, 20% of the total value, were derived from Amazon China wine sales
- No historical figures existed for individual locations as the basis for revenue or market projections—or projected penetration rates

The Market Potential for The Winery to Export Bottled Wine to Mainland China

- Projections regarding individual locations were key to creating a marketing strategy
- Revenue and market projections were critical to making an informed decision about whether or not to enter the market
- Historical data existed for total bottled wine imports but not for city or provincial locations so only 2016/2017 data was used to ensure consistency
- The wine consumer income breakdown was derived from surveys
- Chinese preferences for bottled red, white or sparkling wines—the ones for which figures existed—were available but only for the past year; this reflects the recent exponential increase in bottled wine consumption
- Wine consumed was the same statistically across all age groups between 20 and 60 so this was not considered for inclusion in the model
- To establish global competition for the market, figures for total wine imports by country was calculated over the same period.

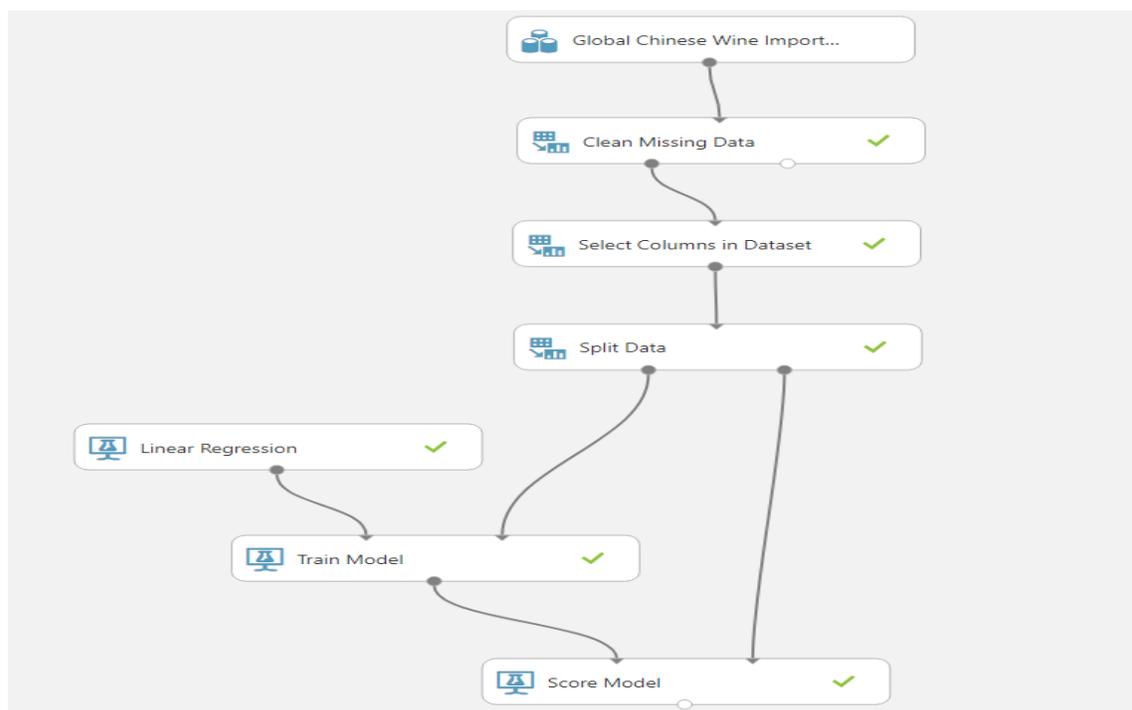
Methodology

In this case, it was decided to construct a model that incorporated a machine learning component with more conventional data analysis methods. The machine learning part of the model was chosen because of the size and nature of the data. The dataset was not large; neither was it comprehensive. Obtaining recent, reliable statistics on Chinese consumption can be difficult.

While data does exist for total wine imports to China dating back seven years, data did not exist for individual provinces or cities except for 2016/2017. The Chinese market as a whole did have to be validated but it was equally important that the Company's Chinese distributor have a target market framework from which to operate.

The Market Potential for The Winery to Export Bottled Wine to Mainland China

It seemed reasonable to assume, then, that predictions should be based on 2016/2017 import figures and a number of other wine consumption characteristics to ensure consistency and to try to avoid overfitting or underfitting.



The sampling was small but data did exist for all of China and the individual locations for the following inputs:

- Total Bottled Wine Import Value 2016/2017 by Location
- Total Bottled Wine Import Quantity 2016/2017 by Location
- Total Chinese Wine Purchased via the Internet 2016/2017 by Location
- Consumer Preference for Bottled Red, White or Sparkling Wine by Location
- Consumption of Bottled Wine by Income Bracket

The same model was used and retrained for each query. The data was

The Market Potential for The Winery to Export Bottled Wine to Mainland China

split 80-20. A linear regression machine learning algorithm was used to create these scored models.

VALUE OF US BOTTLED WINE IMPORTED BY CHINA 2016/2017

rows 9 columns 10

	location	quantity-red	price-per-case-red-wine	annual-income-14097-26430	annual-income-26430-35242	annual-income-more-than-35,242	import-value-purchased-online	import-value	import-quantity	Scored Labels
view as										
	sichuan	164837.59	6.26	32004.33028	37618.28327	47694.60914	70224.80844	638407.35	115158.01	-3533512
	chinese-total	20311927.2	6.26	3943697.808	4635470.887	5877114.874	8653373.41	78667031	14190217	184349808
	tianjin	1021829.03	6.26	198395.0035	233195.9261	295659.1206	435323.9369	3957490.34	713865.08	4458431.5
	liaoning	286210.54	6.26	55569.70708	65317.31687	82813.02674	121932.6276	1108478.43	199950.97	-2401638.25
	beijing	1116139.09	6.26	216705.9405	254718.8266	322947.0837	475502.3099	4322748.27	779751.51	5337928
	guangdong	7454595.38	6.26	1447360.024	1701244.766	2156935.328	3175838.352	28871257.74	5207892.14	64447716
	shanghai	6031743.56	6.26	1171103.737	1376529.73	1745243.05	2569668.985	23360627.14	4213866.52	51178796
	fujian	1117779.26	6.26	217024.3913	255093.1376	323421.6566	476201.0642	4329100.58	780897.36	5353224
	zhejiang	1549965.38	6.26	300936.2429	353724.1596	448471.7024	660322.8256	6002934.78	1082829.06	9383610

US BOTTLED WINE QUANTITY IMPORTED BY CHINA 2016/2017

rows 9 columns 10

	location	quantity-red	price-per-case-red-wine	annual-income-14097-26430	annual-income-26430-35242	annual-income-more-than-35,242	import-value-purchased-online	import-value	import-quantity	Scored Labels
view as										
	sichuan	164837.59	6.26	32004.33028	37618.28327	47694.60914	70224.80844	638407.35	115158.01	-637386.5
	chinese-total	20311927.2	6.26	3943697.808	4635470.887	5877114.874	8653373.41	78667031	14190217	33253626
	tianjin	1021829.03	6.26	198395.0035	233195.9261	295659.1206	435323.9369	3957490.34	713865.08	804226.5625
	liaoning	286210.54	6.26	55569.70708	65317.31687	82813.02674	121932.6276	1108478.43	199950.97	-433215.5
	beijing	1116139.09	6.26	216705.9405	254718.8266	322947.0837	475502.3099	4322748.27	779751.51	962873.125
	guangdong	7454595.38	6.26	1447360.024	1701244.766	2156935.328	3175838.352	28871257.74	5207892.14	11625292
	shanghai	6031743.56	6.26	1171103.737	1376529.73	1745243.05	2569668.985	23360627.14	4213866.52	9231801
	fujian	1117779.26	6.26	217024.3913	255093.1376	323421.6566	476201.0642	4329100.58	780897.36	965632.125
	zhejiang	1549965.38	6.26	300936.2429	353724.1596	448471.7024	660322.8256	6002934.78	1082829.06	1692646.625

The Market Potential for The Winery to Export Bottled Wine to Mainland China

VALUE OF CHINESE WINE INTERNET PURCHASES 2016/2017

rows 9
columns 11

	location	quantity-red	quantity-white	quantity-sparking	annual-income-14097-26430	annual-income-26430-35242	annual-income-more-than-35,242	import-value-purchased-online	import-value	import-quantity	Scored Labels
view as											
area-10	164837.59	13417.01	13417.01	32004.33028	37618.28327	47694.60914	70224.80844	638407.35	115158.01	-430592.5	
total	20311927.2	1653296.4	1653296.4	3943697.808	4635470.887	5877114.874	8653373.41	78667031	14190217	21697102	
area-6	1021829.03	83172.13	83172.13	198395.0035	233195.9261	295659.1206	435323.9369	3957490.34	713865.08	510647.375	
area-9	286210.54	23296.21	23296.21	55569.70708	65317.31687	82813.02674	121932.6276	1108478.43	199950.97	-297287.625	
area-5	1116139.09	90848.53	90848.53	216705.9405	254718.8266	322947.0837	475502.3099	4322748.27	779751.51	614228.8125	
area-1	7454595.38	606769.39	606769.39	1447360.024	1701244.766	2156935.328	3175838.352	28871257.74	5207892.14	7575801	
area-2	6031743.56	490955.87	490955.87	1171103.737	1376529.73	1745243.05	2569668.985	23360627.14	4213866.52	6013072.5	
area-4	1117779.26	90982.03	90982.03	217024.3913	255093.1376	323421.6566	476201.0642	4329100.58	780897.36	616030.25	
area-3	1549965.38	126159.97	126159.97	300936.2429	353724.1596	448471.7024	660322.8256	6002934.78	1082829.06	1090703.375	

QUANTITY OF IMPORTED US BOTTLED WINE CONSUMED BY CHINESE WINE DRINKERS WITH INCOMES \$14,907 TO \$26,430, 2016/2017

rows 9
columns 10

	location	quantity-red	price-per-case-red-wine	annual-income-14097-26430	annual-income-26430-35242	annual-income-more-than-35,242	import-value-purchased-online	import-value	import-quantity	Scored Labels
view as										
sichuan	164837.59	6.26	32004.33028	37618.28327	47694.60914	70224.80844	638407.35	115158.01	-177140.3125	
chinese-total	20311927.2	6.26	3943697.808	4635470.887	5877114.874	8653373.41	78667031	14190217	9241737	
tianjin	1021829.03	6.26	198395.0035	233195.9261	295659.1206	435323.9369	3957490.34	713865.08	223507.96875	
liaoning	286210.54	6.26	55569.70708	65317.31687	82813.02674	121932.6276	1108478.43	199950.97	-120397.789063	
beijing	1116139.09	6.26	216705.9405	254718.8266	322947.0837	475502.3099	4322748.27	779751.51	267598.5	
guangdong	7454595.38	6.26	1447360.024	1701244.766	2156935.328	3175838.352	28871257.74	5207892.14	3230862.5	
shanghai	6031743.56	6.26	1171103.737	1376529.73	1745243.05	2569668.985	23360627.14	4213866.52	2565671.25	
fujian	1117779.26	6.26	217024.3913	255093.1376	323421.6566	476201.0642	4329100.58	780897.36	268365.25	
zhejiang	1549965.38	6.26	300936.2429	353724.1596	448471.7024	660322.8256	6002934.78	1082829.06	470414.65625	

The Market Potential for The Winery to Export Bottled Wine to Mainland China

QUANTITY OF IMPORTED US BOTTLED WINE CONSUMED BY CHINESE WINE DRINKERS WITH INCOMES \$26,430 TO \$35,242, 2016/2017

rows 9
columns 10

	location	quantity-red	price-per-case-red-wine	annual-income-14097-26430	annual-income-26430-35242	annual-income-more-than-35,242	import-value-purchased-online	import-value	import-quantity	Scored Labels
view as										
	sichuan	164837.59	6.26	32004.33028	37618.28327	47694.60914	70224.80844	638407.35	115158.01	-208212.921875
	chinese-total	20311927.2	6.26	3943697.808	4635470.887	5877114.874	8653373.41	78667031	14190217	10862852
	tianjin	1021829.03	6.26	198395.0035	233195.9261	295659.1206	435323.9369	3957490.34	713865.08	262714.03125
	liaoning	286210.54	6.26	55569.70708	65317.31687	82813.02674	121932.6276	1108478.43	199950.97	-141517.0625
	beijing	1116139.09	6.26	216705.9405	254718.8266	322947.0837	475502.3099	4322748.27	779751.51	314538.53125
	guangdong	7454595.38	6.26	1447360.024	1701244.766	2156935.328	3175838.352	28871257.74	5207892.14	3797595.75
	shanghai	6031743.56	6.26	1171103.737	1376529.73	1745243.05	2569668.985	23360627.14	4213866.52	3015721.75
	fujian	1117779.26	6.26	217024.3913	255093.1376	323421.6566	476201.0642	4329100.58	780897.36	315439.84375
	zhejiang	1549965.38	6.26	300936.2429	353724.1596	448471.7024	660322.8256	6002934.78	1082829.06	552931.25

QUANTITY OF IMPORTED US BOTTLED WINE CONSUMED BY CHINESE WINE DRINKERS WITH INCOMES OVER \$35,242, 2016/2017

rows 9
columns 10

	location	quantity-red	price-per-case-red-wine	annual-income-14097-26430	annual-income-26430-35242	annual-income-more-than-35,242	import-value-purchased-online	import-value	import-quantity	Scored Labels
view as										
	sichuan	164837.59	6.26	32004.33028	37618.28327	47694.60914	70224.80844	638407.35	115158.01	-263984.25
	chinese-total	20311927.2	6.26	3943697.808	4635470.887	5877114.874	8653373.41	78667031	14190217	13772544
	tianjin	1021829.03	6.26	198395.0035	233195.9261	295659.1206	435323.9369	3957490.34	713865.08	333083.84375
	liaoning	286210.54	6.26	55569.70708	65317.31687	82813.02674	121932.6276	1108478.43	199950.97	-179423.40625
	beijing	1116139.09	6.26	216705.9405	254718.8266	322947.0837	475502.3099	4322748.27	779751.51	398789.9375
	guangdong	7454595.38	6.26	1447360.024	1701244.766	2156935.328	3175838.352	28871257.74	5207892.14	4814808
	shanghai	6031743.56	6.26	1171103.737	1376529.73	1745243.05	2569668.985	23360627.14	4213866.52	3823504
	fujian	1117779.26	6.26	217024.3913	255093.1376	323421.6566	476201.0642	4329100.58	780897.36	399932.65625
	zhejiang	1549965.38	6.26	300936.2429	353724.1596	448471.7024	660322.8256	6002934.78	1082829.06	701037.8125

From this model, projections were made that enabled in part a

The Market Potential for The Winery to Export Bottled Wine to Mainland China

determination of the viability of this company entering the Chinese bottled wine market.

HOW THE IMPORT VALUE AND QUANTITY INFORMATION WAS USED

This part of the model was used for two purposes: To eliminate locations that were not deemed to be potential target markets on the basis of import value and quantity; and, to identify the locations that appeared to be potential target markets on the basis of import value and quantity. Two of the original ten locations became the test part of the model.

The results effectively eliminated two locations, Sichuan and Liaoning, as potential target markets because their scored numbers were consistently negative in all categories. They were not used for any projections made on the basis of this model. This left six locations that were used as the potential target market.

The scored figures of locations with positive numbers, which showed reasonable results, were used as the basis for projections.

	US Wine Import Value		US Wine Import Quantity		Value of Chinese Internet Wine Purchases	
	Input	Scored	Input	Scored	Input	Scored
Total	\$78,667,031	\$197,246,336	14,190,217	35,579,944	\$8,653,373	\$21,697,102
Sichuan	\$638,407	-\$3,914,476	115,158	-706,106	\$70,225	-\$430,593
Tianjin	\$3,957,490	\$4,642,249	713,865	837,384	\$435,324	\$510,647
Liaoning	\$118,478	-\$2,702,615	199,951	-487,507	\$121,933	-\$297,288
Beijing	\$4,322,748	\$5,583,898	779,752	1,007,241	\$475,502	\$614,229
Guangdong	\$28,871,258	\$68,870,904	5,207,892	1,243,159	\$3,175,838	\$7,575,801
Shanghai	\$23,360,627	\$54,664,284	4,213,867	9,860,522	\$2,569,669	\$6,013,073
Fujian	\$4,329,101	\$5,600,275	780,897	1,010,195	\$476,201	\$616,030
Zhejiang	\$6,002,935	\$9,915,483	1,082,829	1,788,587	\$660,323	\$1,090,703

HOW THE IMPORT VALUE AND QUANTITY INFORMATION WAS USED

This part of the model was used for two purposes: To eliminate locations that were not deemed to be potential target markets on the basis of

The Market Potential for The Winery to Export Bottled Wine to Mainland China

consumer income; and, to identify the locations that did appear to be potential target markets on the basis of consumer income.

Consistent with the value and quantity figures, scored results eliminated Sichuan and Liaoning as potential target markets because their numbers were again negative in all categories. They were not used for any projections made on the basis of this model. This left six locations that were used as the potential target market. The scored figures of locations with positive numbers were used for projections.

	Chinese Wine Drinkers with Incomes \$14,907 to \$26,430		Chinese Wine Drinkers with Incomes \$26,430 to \$35,242		Chinese Wine Drinkers with Incomes Over \$35,242	
	Input	Scored	Input	Scored	Input	Scored
Total	3,943,698	9,888,260	4,635,471	11,622,779	5,877,115	14,736,027
Sichuan	32,004	-3,914,476	37,618	-230,661	47,695	-292,445
Tianjin	198,395	232,273	233,196	273,545	295,659	346,817
Liaoning	55,570	-135,486	65,317	-159,252	82,813	-201,909
Beijing	216,706	279,929	254,719	329,032	322,947	417,166
Guangdong	1,447,360	3,452,603	1,701,245	4,058,231	2,156,935	5,145,259
Shanghai	1,171,104	2,740,404	1,376,530	3,221,104	1,745,243	4,083,900
Fujian	217,024	280,750	255,093	329,997	323,422	418,389
Zhejiang	300,936	497,078	353,724	584,271	448,472	740,773