universität wien

# MASTERARBEIT / MASTER'S THESIS

Titel der Masterarbeit / Title of the Master‘s Thesis

## „Exporting Austrian Wine to China: Export Mode Choice, Challenges and Opportunities“

verfasst von / submitted by

Veronika Erlacher, BSc

angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of

Master of Science (MSc)

Wien, 2021/ Vienna, 2021

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|---|---|
| Studienkennzahl lt. Studienblatt / degree programme code as it appears on the student record sheet: | A 066 914 |
| Studienrichtung lt. Studienblatt / degree programme as it appears on the student record sheet: | Masterstudium Internationale Betriebswirtschaft |
| Betreut von / Supervisor: | Univ.-Prof. Dr. Josef Windsperger |

## Acknowledgements

First, I want to thank Univ.-Prof. Dr. Windsperger for the supervision of this Master's thesis. I am grateful that I could choose this topic and thus explore it with a great deal of interest and commitment.

Further, I want to thank my interview partners. Your openness, willingness, and experience have contributed greatly to answering the research questions.

I would not be in this position without the loving and warm support from my family. Therefore, thank you, Mama and Papa, that you made it possible for me to follow my own way. Thank you to my brothers, Georg and Bernhard, and my sister, Beate, for always being there for me. I am very grateful to be part of this family.

Finally, I want to thank my partner, Felix. Thank you for your unconditional support and love, for always having my back and simply for being who you are. I love you endlessly.

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# 1 Introduction

The last decades have seen a rapid economic growth in the People's Republic of China. This growth initiated by a political change towards trade liberalization and opening-up of the economy has influenced many economic sectors, including the wine industry. China[1]'s wine market has become one of the largest in the world and its wine consumption is the highest among the Asian countries. It caught the attention of international wineries who consider it a promising market and thus are willing to enter a competition for gaining potential consumers in the populous nation (Smith et al., 2012).

One of these competitors are Austrian wineries who aim at exporting their wine to China. Although research has been carried out on the export mode choice in general, there has been little detailed investigation of the export of Austrian wine to China. Consequently, this thesis attempts to examine the mode of export chosen by Austrian wineries which export to China. Another objective of this research are the entry barriers and motives perceived by wineries entering the Chinese market. Previous research suggests that a sequential internationalization is applicable in the Chinese market. So far, however, there has been no discussion about the role of the Uppsala internationalization process model in the Austrian wine industry. Due to this knowledge gaps, the following research questions are the main objective of this thesis.

*RQ1: "Which mode of export do Austrian wine estates choose when exporting to China?"*

*RQ2: "Which motives do Austrian wine estates have for exporting to China?"*

*RQ3: "Which major challenges or barriers do Austrian wine estates perceive when exporting to China? "*

*RQ4: "Do Austrian wine estates consider a sequential process of internationalization when exporting to China?"*

[1] In this thesis, China and PRC are always used as synonyms for the People's Republic of China.

The first part of this thesis will describe the Chinese wine market. This will include a brief overview of its history, economic key figures (e.g., import and export), as well as potential entry barriers in the Chinese market. In chapter 3, the Austrian wine industry will be highlighted including its characteristics and wine growing regions. These two chapters aim at providing an understanding of the markets this research is examining. Then in chapter 4, the theoretical background of the market entry choice in general will be addressed. Further, the different export modes as well as the state of research on its choice is a main part of this thesis. The fifth chapter is concerned with the methodology used for this study. The results of the expert interviews will be presented in chapter 6, before discussing them in the following chapter and subsequently concluding this thesis (in chapter 8).

# 2 Chinese Wine Market

In this thesis, China is considered the target market for Austrian wine. Therefore, after a short introduction to the global wine market, the focus of this chapter lies on the Chinese wine industry. After briefly outlining the historical development, the production and consumption as well as imports and exports of wine are described. Last, detected market barriers from former research are addressed.

## *2.1 Global Wine Market*

For a better understanding of the research subject, an overview of the global wine market is necessary. Johnson and Robinson (1971) were the first ones to divide the global wine market into the New World (NW) and into the Old World (OW) wine producing countries. Traditional wine producing countries such as Italy, Spain, France, Germany, and Austria belong to the OW producers. Wine producing countries that arose after the European colonial times belong to the New World, for instance Australia, New Zealand, Chile, or the United States (Thorpe, 2009; Johnson & Robinson, 1971). The different historical development as well as the strategies applied by the firms in the industry led to differences between OW and NW countries (Roberto, 2011). One such difference is the market concentration that is higher in the NW. For example, the top 10 wine producers in Italy have a market share of 6%, in the US it is numbered at 37.6% (Roberto, 2011). Another distinction between the OW and the NW is the characteristic of the wine producers. For instance, in the OW small family-owned wine estates are common, whereby large companies are typical in the NW. The producers in the NW aim at consistently high-quality wines as well as at the minimization of their operating costs. Therefore, they tend to invest higher sums in modern technologies. Moreover, the NW winemakers outsource most of their grape production, in contrast to the OW that grows mostly their own fruit. For instance, Californian wineries buy around 80% of the grapes used for their wine (Roberto, 2011).

China belongs to neither of these two worlds but was classified instead as a *New New World* producer by the French Foreign Trade Advisory Committee in 2009 (Li et al., 2018). This committee defined the latest wine producing countries as *New New World* countries, such as China, Brazil, or India. Furthermore, Lawrence (2016) raises the question of still referring to non-European wines as NW. He argues that the term is outdated because so-called NW countries have been producing quality wines for decades now. If the term remains in use, it would be best fit for the wine nations China and India who are relatively new in the field of wine production. Li et al. (2018) disagree with the before mentioned approaches and introduce the label *Ancient World*. According to them, this label is more accurate for China due to its long history of winemaking. In fact, they argue that fossils found in Shandong revealed that the wine grape *Vitis romanetti* existed there 26 million years ago and thus, China should not be categorized as a *New New World* wine producer (Li et al., 2018).

## *2.2 Historical Development of the Chinese Wine Industry*

Even though wine has been known in China for more than 2000 years, it has undergone many changes and fallen into oblivion. Historical records show that the production and consumption of wine appeared first during the Han Dynasty (206 BC - 8 AD), followed by the Tang Dynasty (618 – 907 AD) and later again by the Yuan Dynasty (1279 – 1368 AD; Jenster & Cheng, 2008). In 1892, the first wine company, Chang Yu Winery, was introduced by the overseas Chinese businessman Zhang Bishi in Yantai, Shandong (Li & Bardaji, 2017). The company planted *Welschriesling* in their vineyards and hired the Austrian consul as their winemaker (Berberoglu, 2004). Melco winery was established by Germans in 1912 and Tonghua winery in 1937. All the above are considered the beginning of the modern wine industry in China (Jenster & Cheng, 2008).

After the founding of the People's Republic of China (PCR) by the Communist Party in 1949, all wineries were confiscated and owned by the state. Due to concentrating on quantity rather than quality and outdated wine-making techniques, Chinese producers mixed wine with water, sugar, colorings, and fermented cereals. This caused a downfall of the Chinese wine industry (Jenster & Cheng, 2008).

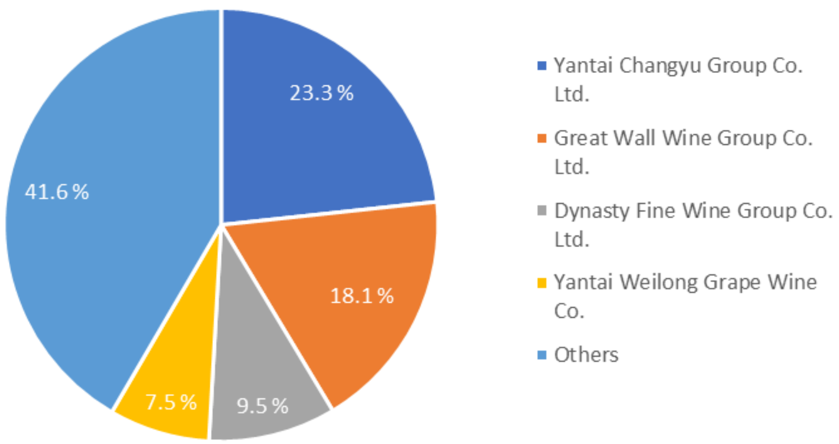
The Opening-Up Policy in 1978 improved the Chinese wine industry due to enabling foreign investment. The first Western investment was made by Remy Martin. The French company established a joint venture, Dynasty Winery, with the Tianjin government. Next, the Huadong Winery was started by Hongkong investors in Qingdao, Pernod-Ricard opened a winery in Beijing in 1987 and in 1990 an Italian company introduced the Marco Polo winery in Yantai (Berberoglu, 2004; Jenster & Cheng, 2008).

### *2.3 Characteristics of the Chinese Wine Market*

Starting with the Opening-Up Policy, the Chinese economy has flourished which had a positive effect on the Chinese wine market (Mitry et a., 2009). According to Liu et al. (2014), the PRC has been one of the most rapidly growing wine markets and has a great potential for further growth. The high population as well as the rising economic growth and income of the middle class is attractive to wine suppliers around the world (Mitry et al., 2009; Liu et al., 2014).

The wine production in China is highly concentrated and most of it is sold in the domestic market. The leading Chinese wineries are Yantai Changyu Group Co. Ltd., Great Wall Wine Group Co. Ltd., Dynasty Fine Wine Group Co. Ltd., and Yantai Weilong Grape Wine Co. They produce a high variety of wines that make up at least half of the market as can be seen in figure 1. Even though this sector is highly concentrated, small wineries, for instance from Ningxia, are highly regarded among the quality wineries (Jiao & Ouyang, 2019).

**Figure 1. Market Share of Chinese Wineries by Volume.**




*Note*. Reproduced from “The Chinese Wine Industry” by Jiao & Ouyang, 2019, p. 233 (https://doi.org/10.1007/978-3-319-98633-3_10). Copyright 2019 by the authors.

The Yantai Changyu Group Co. Ltd. was founded in 1892 as the first industrialized winery in China. It is the most successful company with a market share of almost 25%.

The company’s success in China as well as abroad is due to cooperating with large foreign wine groups. For instance, in 2001 they formed a strategic alliance with Castel, a French wine group. Furthermore, they hold an Alliance with wineries from France, Italy, Spain, New Zealand, and Australia who produces prestigious high-end wines. Despite its foreign competitors, the decline in wine consumption due to the anti-corruption campaign and the economic slowdown, the group is further expanding its investment abroad and keeps their renown status (Smith et al., 2012; Jiao & Ouyang, 2019).

According to Bargain et al. (2018), China is one of the latecomers in the wine market that successfully caught up by investing in technology and innovation. Specifically, China, as well as the USA, benefit from a high number of potential consumers and an increasing demand which also constitutes to their competitive advantage. Nonetheless, Chinese wine-growing companies are threatened by foreign entrants that draw high-end consumers and their effective strategies including advertising and retailing (Zheng & Wang, 2017).

Chinese wineries face several challenges such as poor quality, inconsistency, and a lack of government support. Moreover, the lacking legal system, wine culture and high-level education on wine might have affected the decrease in production. Nevertheless, the Chinese government has been intervening in the wine industry since the 1990s and improved the regulations and standards in the 12$^{th}$ Five-Year Plan as well as in the 13$^{th}$ Five-Year Plan for the Chinese wine industry. The Ministry of Industry and Information Technology and the Ministry of Agriculture focused on the enhancement of the industrial structure, the green development, and the general advancement of the wine production sector by innovating the technology and science, product quality and safety as well as promoting the Chinese wine culture (Li & Bardaji, 2017; Jiao & Ouyang, 2019).

Overall, the wine industry is considered the fastest growing sector in the Chinese alcohol industry. Wine producers invest high sums in the cultivation of their vineyards and in the production with a focus on new technologies that aim higher productivity and quality (WKO, 2017).

### *2.3.1 Wine Production and Wine Consumption*

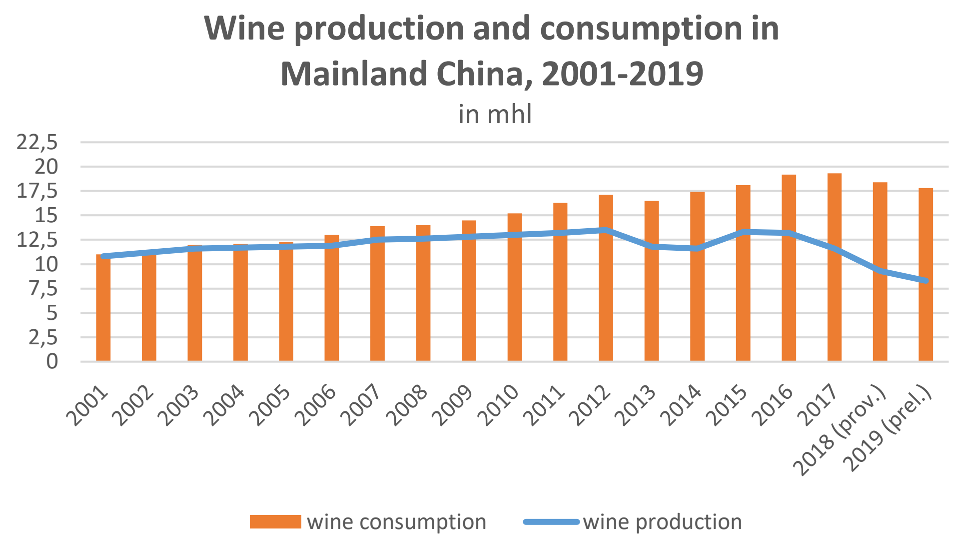
In general, Chinese vineyards are reaching from the west desert areas to the east coastal areas and therefore differ in their geographical and climatic conditions (Li & Bardaji, 2017). According to the Austrian Chamber of Commerce (WKO, 2017), Shandong and Hebei are currently the most successful wine regions in China, by production output and profit. The province of Shandong (in Eastern China) achieves the largest profits, has companies with high capacities, and produces most of the wine. Branded wines from this region are, for instance, Changyu, Great Wall, Grand Dragon, Baiyanghe or Huadong. Moreover, the wine consumption is above average, the employment rate as well as the per capita income are very high. As a result, the competition is quite large and thus, high sums are invested in marketing (WKO, 2017).

In the PRC, the total grape production in 2018 numbered at provisionally 11.7 million tons (t), from which only 10.3 % accounted to produce wine grapes. Moreover, the vineyard surface area of China amounted to 875 thousand hectares (kha) in 2018, following Spain with 969 kha. In 2019, the vineyard surface area for China was estimated at 855 kha, which indicates the slowing of the 10 years of expansion of Chinese vineyard (International Organisation of Vine and Wine [OIV], 2020a; OIV, 2020b).

The production and consumption of wine (including sparkling and special wine, excluding juices and must) from 2011 to 2019 is illustrated in figure 2. It shows that the production of wine has been decreasing over the last four years, with preliminary (prel.) 8.3 million hectolitres (mhl) in 2019 (OIV, 2009; OIV, 2014; OIV, 2020a). It needs to be mentioned that some wineries in western China sell their bulk wine to wineries in the East which then bottle it. This might lead to the production being counted twice and thus, the statistics cannot be taken for granted (Jiao & Ouyang, 2019).

In 2013 and 2014, the production and consumption of wine declined slightly due to the suppression of the traditional gifting and corruption by the Chinese government. They discouraged state companies from having banquets and exchanging expensive gifts with business partners. However, the time span since 2001 demonstrates that China’s accession to the World trade Organization (WTO) led to an increase in domestic production. Moreover, the rising economy and market demand, more foreign competitors as well as the development in technology and society led to this growth (Insel, 2014; Li & Bardaji, 2017; Jiao & Ouyang, 2019).

**Figure 2. Wine Production and Consumption in Mainland China, 2001-2019, in mhl.**




*Note*. The data for 2001 to 2008 are from "OIV Vine and Wine Outlook 2008-2009", by OIV, 2009, p. 38 (https://www.oiv.int/en/technical-standards-and-documents/statistical-analysis/statistical-data). The data for 2009 to 2014 are from by OIV, 2014, table P and S (https://www.oiv.int/en/technical-standards-and-documents/statistical-analysis/statistical-data). The data for 2015 to 2019 are from "State of the World Vitivinicultural Sector in 2019", by OIV, 2020a, p.8 and 10 (https://www.oiv.int/en/technical-standards-and-documents/statistical-analysis/state-of-vitiviniculture). Copyright 2009, 2014, 2020 by the International Organisation of Vine and Wine.

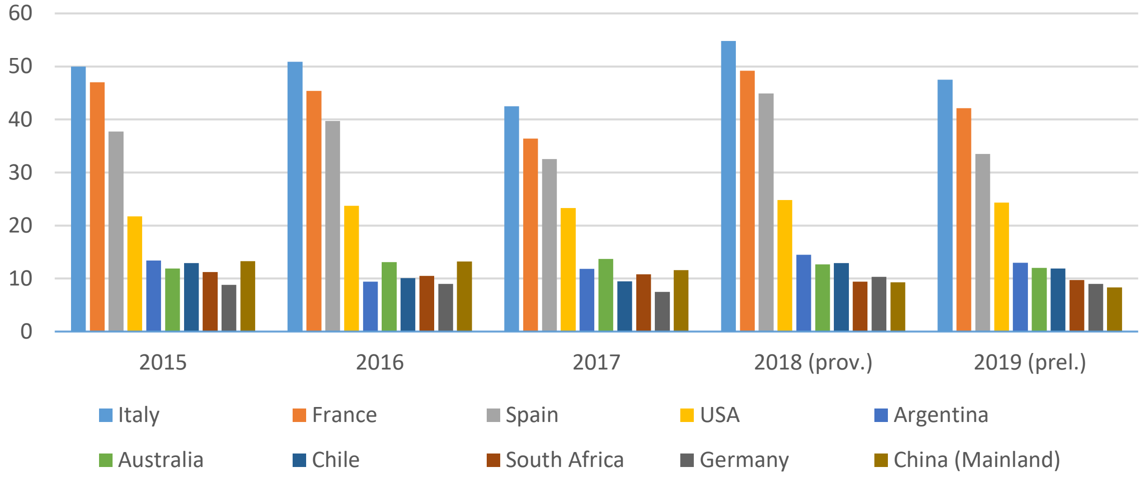
As shown in figure 2, the consumption of wine decreased to a lower extent than the production. Since the late 2000s, the gap between production and consumption has been increasing, causing a higher demand for imported wine. After provisionally (prov.) 18.4 mhl in 2018, the Chinese consumed preliminarily 17.8 mhl, demonstrating that the wine production is lower than the consumption (OIV, 2009; OIV, 2014; OIV, 2020a). The higher consumption occurs due to the rise in per capita income, the reduced tariffs for imported (bottled and bulk) wine, and the association with sophistication, prestige, and social status (Liu et al., 2014). According to Castillo-Valero and Li (2019), the overall increase in consumption was influenced by factors such as higher earnings, marital status, tourism activities and life in urban areas. Especially the cities Beijing, Guangzhou, Shanghai, and Shenzhen are relevant due to expatriates, western-educated and progressive consumers. Most of the wine consumed is red wine for the red color is representing happiness and celebration. Moreover, it is linked with the attribute health due to the assumption that it has beneficial cardiovascular effects. Furthermore, the encouragement of the Chinese government to reduce the consumption of b*aijiu* by increasing the consumption of other alcoholic beverages such as wine also had a positive effect on it. *Baijiu* is a sorghum-based distilled alcohol which is well-anchored in the Chinese society. In 1996, the Chinese government tried to lower its popularity and drinking because of the necessity of grain used in its production due to the increasing population (Jenster & Cheng, 2008; Mitry et al., 2009; Muhammad et al. 2013; Liu et al., 2014; Bobik, 2015).

Additionally, alcohol is traditionally consumed at social banquets and business meetings. There has been a shift from *baijiu* to wine being served at these gatherings. As the hosts want to show their respect and wealth, they provide high-quality drinks and food. Besides the importance of social gatherings, most wine (around 60%) is sold for gifts during the two major holidays Chinese New Year and Mid-autumn Festival (Muhammad et al. 2013).

The Chinese middle class is the target group for high-priced wine. They are considered a driving force in the Chinese wine market because of their long-term stable purchasing power, their ability to influence other consumers' buying decisions as well as their brand awareness (WKO, 2017). Thus, the rising of China's middle class is often assumed to positively affect the wine consumption (Jenster & Cheng, 2008).

As a comparison, the world production of wine was estimated at 260 mhl, marking a decrease of 34 mhl with respect to the volume of 294 mhl recorded in 2018. (OIV, 2020a). Additionally, the world production of the top ten wine producers from 2015 to 2019 is shown in figure 3.

**Figure 3. Top 10 World Wine Producers, 2015-2019, in mhl.**

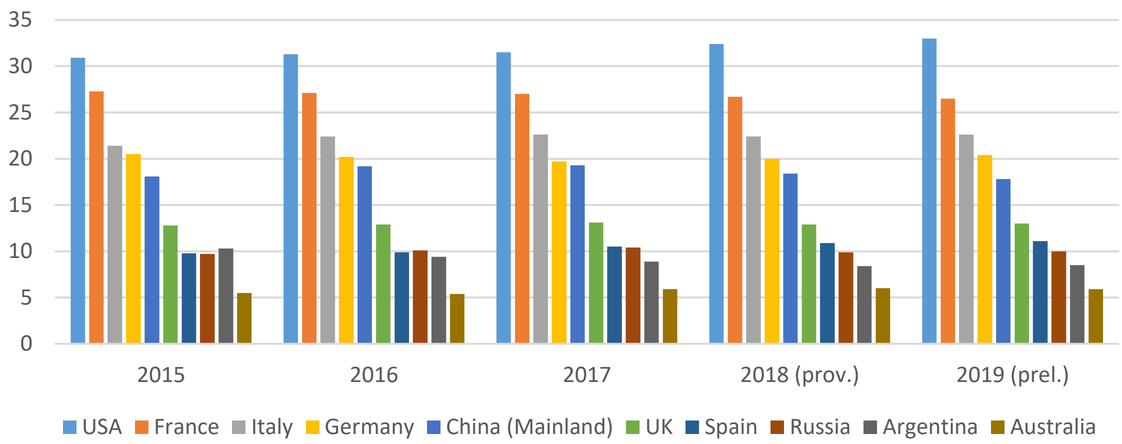



*Note*. The data are from “State of the World Vitivinicultural Sector in 2019”, by OIV, 2020a, p.8 (https://www.oiv.int/en/technical-standards-and-documents/statistical-analysis/state-of-vitiviniculture). Copyright 2020 by the International Organisation of Vine and Wine.

As illustrated in figure 3, Italy was responsible for the highest production of wine from 2015 to (preliminary) 2019. In 2019, they produced preliminary 47.5 mhl wine, followed by France with preliminary 42.1 mhl and Spain (33.5 mhl). The top three producers remained stable on their ranks from 2015 to 2019, but the rest of the top ten producers changed in their quantity and thus in their ranks. For instance, in 2016 China (Mainland) even had the 5$^{th}$ highest production (OIV, 2020a).

In figure 4, the ten countries with the highest wine consumption are shown. The total world consumption of wine was estimated at 244 mhl in 2019, with almost no change (only 0.1 % increase) compared to 2018. From 2015 to 2019, the US had the highest consumption of wine. In 2019, they reached a record-high with (prel.) 33 mhl of wine, followed by France (26.5 mhl), Italy (22.6 mhl), Germany (20.4 mhl), Mainland China (17.8 mhl), United Kingdom (13 mhl), Spain (11.1 mhl), Russia (10 mhl), Argentina (8.5 mhl) and Australia (5.9 mhl).

**Figure 4. Top 10 Wine Consuming Countries, 2015-2019, in mhl.**




*Note*. The data are from “State of the World Vitivinicultural Sector in 2019”, by OIV, 2020a, p.10 (https://www.oiv.int/en/technical-standards-and-documents/statistical-analysis/state-of-vitiviniculture). Copyright 2020 by the International Organisation of Vine and Wine.

### *2.3.2 Wine Import and Export*

As indicated in 2.3.1, the consumption of wine is higher than the domestic production in China, which implicates a need for imported wine. The Chinese market for imported wine has been expanding and evolving because of the changing consumer behavior of Chinese wine drinkers who consider imported wine as a symbol of luxury and exotic food culture (Agnoli et al., 2014; Muhammad et al., 2013). Overall, the wine imports have increased enormously since 2000 where they were valued at 4.9 million US$ (Muhammad et al., 2013) and had a volume of 346,000 hl (OIV, 2001). In 2019, the value of import was 2.2 bn Euros (EUR; 2018 it was 2.4 bn EUR), and the volume of import 6.1 million hl (2018 it was 6.9 mhl), as illustrated in table 1. Therefore, China ranked as 5th highest wine importer in 2018 and 2019 (OIV, 2020a). Despite the slight decrease of Chinese wine imports in 2019, some wine analysts estimate that China will replace the UK as the second largest wine market by 2021. A report published by the global alcoholic beverage exhibition Vinexpo and the International Wine and Spirit Research found that China’s domestic wine market will surpass 20 bn US$ and will keep expanding by around 30% a year (Miller, 2018). Nonetheless, the statistics of 2020 published by the OIV do not support this estimation. China’s wine imports have decreased to 4.3 mhl and 1.6 bn EUR. Whereas the wine imports of the UK have increased to 14.6 mhl and 3.8 bn EUR (OIV, 2021).

**Table 1. Top 10 Wine Importers in 2018 and 2019.**

| Wine Importer | Volume (mhl) | | Value (bn EUR) | |
|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 |
| Germany | 14.7 | 14.6 | 2.7 | 2.6 |
| UK | 13.2 | 13.5 | 3.5 | 3.8 |
| USA | 11.5 | 12.3 | 5.2 | 5.5 |
| France | 7 | 7.2 | 0.9 | 0.9 |
| China | 6.9 | 6.1 | 2.4 | 2.2 |
| Russia | 4.1 | 4.5 | 0.9 | 1.0 |
| Netherlands | 4.2 | 4.2 | 1.2 | 1.2 |
| Canada | 4.2 | 4.2 | 1.7 | 1.7 |
| Belgium | 3.0 | 3.1 | 1.0 | 1.0 |
| Portugal | 2.0 | 2.9 | 0.1 | 0.2 |

*Note*. Reproduced and adapted from "State of the World Vitivinicultural Sector in 2019", by OIV, 2020a, p.14 (https://www.oiv.int/en/technical-standards-and-documents/statistical-analysis/state-of-vitiviniculture). Copyright 2020 by the International Organisation of Vine and Wine.

In 2019, the top four importers of wine by volume were Germany, the UK, the USA, and France. Germany, the UK, and the USA imported 40.4 mhl in total, which equals 38% of the total wine imports. Moreover, there is a difference in the ranking in terms of volume or of value. For instance, France ranks 4$^{th}$ but only has a wine import value worth 0.9 billion (bn) EUR which is lower than Canada that ranks 8$^{th}$. Additionally, the USA would be 1$^{st}$ in terms of value (OIV, 2020a).

According to Capitello et al. (2015), the PRC is an attractive market for imports. China's entry into the World Trade Organization (WTO) led to a trade liberalization process. The wine tariff was reduced from 65% to 14% for bottled wine, and to 20% for bulk wine. This, among other factors, led to the increase of foreign wine imports, and further to imported wine making up around 30% of the wine being consumed in the PRC. Even though Chinese wine mainly satisfies the local demand, the share of foreign entrants is likely to increase in the upcoming years. In 2018 France was the leading supplier (1.058 bn USD) with their wine associated with quality and modern lifestyle. Nevertheless, Chinese consumers are keen on trying other wines and origins as well, which creates a dynamic and competitive market (Capitello et al., 2015; Li & Bardaji, 2017; Boquen, 2021).

**Table 2. Top 10 Wine Importers into China (value and volume), 2018.**

| Wine Importer into China | Value (million USD) | Volume (mhl) |
|---|---|---|
| France | 1,058.0 | 173.8 |
| Australia | 723.5 | 119.3 |
| Chile | 269.7 | 74.7 |
| Italy | 168.4 | 36.0 |
| Spain | 162.1 | 61.2 |
| USA | 75.5 | 12.8 |
| South Africa | 32.9 | 9.8 |
| New Zealand | 28.8 | 2.5 |
| Argentina | 26.2 | 5.2 |
| Germany | 25.8 | 5.2 |

*Note*. The data are from “Top Wine Importing Countries of China”, by China Wine Competition, 2019 (https://chinawinecompetition.com/en/blog/insights-1/top-wine-importing-countries-of-china-172.htm). Numbers rounded to one decimal point. Copyright 2019 by China Wine Competition.

As shown in table 2, Australia was the second leading supplier in terms of value and volume in 2018, followed by Chile. Italy and Spain were close by value, but Spain had a higher export volume to China. The United States, South Africa, New Zealand, Argentina, and Germany were as well part of the ten countries with the highest import value into China (China Wine Competition, 2019).

The situation changed in 2019. China imported in total 612.4 million liters of wine valued at 2.34 bn USD. Thus, there was a decrease of 11% in volume and 14.8% in value, and a further decline is expected due to the Covid-19 Pandemic. For the first time, Australia replaced France as the superior supplier of wine by obtaining a market share of 35.5 %, in contrast to France with 29%. The surpassing of Australia was due to the rapid decline in French wine transports, as well as the swift rise of the Australian winery Penfolds that paved the way for further Australian wine shipments to China. Nevertheless, China raised the tariffs on Australian wine in 2020 due to a political dispute. Consequently, the Australian wine imports declined immensely (Hurst, 2020). Chile (14%) remained on 3rd place, with Italy, Spain, the US, Argentina, Portugal, South Africa, and Germany following (Nimbility Asia, 2020; Wine Australia, 2020; Wang, 2020).

China imported 387,417 liters of Austrian wine in 2019, in terms of value 2,978,076 EUR. With an import volume of 246,393 liters and import value of 1,594,333 EUR in 2018, the volume increased by 57.2 % and the value by 86.8 %. Thus, the export of Austrian wine to China makes up only 1.63% of the total Austrian wine export volume (Heidinger, 2020).

The top worldwide wine exporters are shown in table 3. Italy had the highest exports with 21.6 million hl of wine in 2019, followed by Spain (21.3 million hl) and France (14.2 mhl). However, France was the leading exporter by value (9.8 bn EUR), followed by Italy (6.4 bn EUR) and Spain (2.7 mhl) (OIV, 2020a).

**Table 3. Top 10 Wine Exporters in 2018 and 2019.**

| Wine Exporter | Volume (mhl) | | Value (bn EUR) | |
|---|---|---|---|---|
| | 2018 | 2019 | 2018 | 2019 |
| Italy | 19.6 | 21.6 | 6.2 | 6.4 |
| Spain | 20.0 | 21.3 | 2.9 | 2.7 |
| France | 14.2 | 14.2 | 9.3 | 9.8 |
| Chile | 8.4 | 8.7 | 1.7 | 1.7 |
| Australia | 8.5 | 7.4 | 1.8 | 1.8 |
| Germany | 3.7 | 3.8 | 1.0 | 1.0 |
| USA | 3.5 | 3.6 | 1.2 | 1.2 |
| South Africa | 4.2 | 3.2 | 0.7 | 0.6 |
| Portugal | 3.0 | 3.0 | 0.8 | 0.8 |
| Argentina | 2.8 | 2.7 | 0.7 | 0.7 |

*Note*. Reproduced and adapted from “State of the World Vitivinicultural Sector in 2019”, by OIV, 2020a, p. 13 (https://www.oiv.int/en/technical-standards-and-documents/statistical-analysis/state-of-vitiviniculture). Copyright 2020 by the International Organisation of Vine and Wine.

China is not among the top 10 wine exporters. China’s exports of wine are insignificant for the wine industry is still developing and most wineries sell their wine domestically. Nonetheless, the number of Chinese wines sold abroad is rising and scholars predict them to further grow. For instance, the high-quality wines from Ningxia are already highly in demand (Jiao & Ouyang, 2019).

### *2.4 Market Entry Barriers*

Market entry barriers limit the chances of potential new market entrants and provide established firms with advantages over them. Entry barriers differ in markets due to distinct characteristics and structures (Karakaya & Stahl, 1989).

The Chinese market is quite complex due to regulatory (tariff and non-tariff) and cultural barriers. Quotas and licenses, restrictions, and poor protection of property rights belong to non-tariff barriers (Gao et al., 2012). Tariffs on wine have been reduced, but some countries obtain an advantage over other entrants due to free trade agreements (FTA). FTAs facilitate trade and help overcome tariff barriers for the signing parties but at the same time increase barriers for other countries. For instance, New Zealand, Australia, and Chile have signed FTAs that resulted in zero tariffs after some years (Jiao & Ouyang, 2019). However, the China-Australia-FTA was at threat when Australia faced tariffs of up to 200% after China accused the country of dumping-prices in 2020 (Hurst, 2020). Moreover, the European Union (EU) and China signed the bilateral agreement “EU-China 2020 Strategic Agenda for Cooperation” in 2017. It aims at protecting 100 geographical indications (including indications of origin of wine) of each party (Jiao & Ouyang, 2019).

The Chinese government represents another barrier since it controls distribution channels and regulates the wine imports. The major Chinese wineries belong to the government and thus have a competitive advantage over foreign entrants (Bobik, 2015). Consequently, the Chinese government strongly protects their local wineries causing another entry barrier for foreign entrants. Additionally, the variety of the Chinese market including regional differences and provinces difficult to access can be a burden for foreign market players (Gao, Knight & Ballantyne, 2012).

Cultural barriers exist due to different and complicated norms which are relevant for doing business. The concept of *guanxi* is often viewed as a barrier but can be an opportunity (Gao et al., 2012). *Guanxi* is a social and cultural concept with various meanings such as a special relationship, a valued resource, or a social exchange. Overall, it is "*a culturally constructed set of behavioral norms*" (Gao et al., 2012, p. 461). Many scholars (Bretherton & Carswell, 2010; Jiao and Ouyang, 2019) mention the importance of personal relationships (often referred to as *guanxi*) when entering China. Some even say that a company will not succeed in China without understanding the concept of *guanxi*. However, they also highlight the disadvantages of it, for instance corruption (Gao et al, 2012). Gao et al. (2012) examined the relevance of *guanxi* in Chinese-Western business relationships. Western firms consider business relationships mainly as contracts or agreements, whereas Chinese businesspeople focus more on the personal interactions accompanying such relationships. The authors developed the term *guanxi gateway ties* which support foreign companies to deal with a major entry barrier, the Chinese hierarchy and bureaucracy. This term describes the development of *guanxi* through communicating insiders and outsiders of the Chinese market in an intercultural buffer zone. By establishing interpersonal ties, foreign entrants gain the trust of insiders despite cultural differences. As a result, this *guanxi gateway* helps foreign entrants access valuable networks (ibid).

Ninerola et al. (2017) pinpointed legal, bureaucratic, cultural (including language and trust) and human resources-related entry barriers. Strong personal relationships with local people, as well as skilled and committed human resources are essential for overcoming these barriers.

To conclude, the Chinese market offers many opportunities but also challenges. The wine industry has been evolving over the last decades and there are promising wine consumers among the Chinese population. However, cultural and regulatory barriers might hinder foreign wineries from exporting into China.

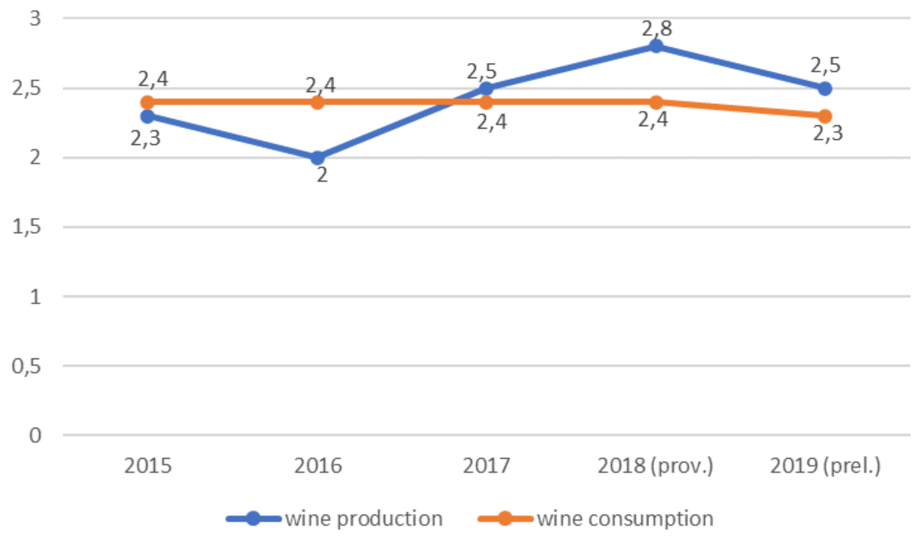
# 3 Austrian Wine Market

As demonstrated in chapter 2, there are many countries importing into China. The Old World country France, and the New World wine producer Australia are among the most demanded players in the Chinese wine industry. Austria is not as highly represented as other Old World countries in China's wine industry. Nonetheless, Austrian wineries are competing for Chinese consumers as well. To understand the Austrian wine industry as well as the decision-making process by Austrian wineries, a brief overview is given in this chapter.

## *3.1 Characteristics of the Austrian Wine Industry*

In 2019, the production of Austrian wineries was estimated at 2.5 mhl, while the consumption of wine accounted for (preliminarily) 2.3 mhl. In contrast to China, Austria had to export wine to cover the production (OIV, 2020a). As illustrated in figure 5, the production and consumption of wine both decreased compared to 2018. Moreover, in 2016 there was a downfall of the wine production compared to the other years from 2015 to 2019, while the consumption was quite steady in the given timespan. The decline in production in 2016 was due to crop failures caused by a late frost in April, especially in Styria and Burgenland (Statistik Austria, 2017).

**Figure 5. Wine Production and Consumption in Austria, 2015-2019, in mhl.**



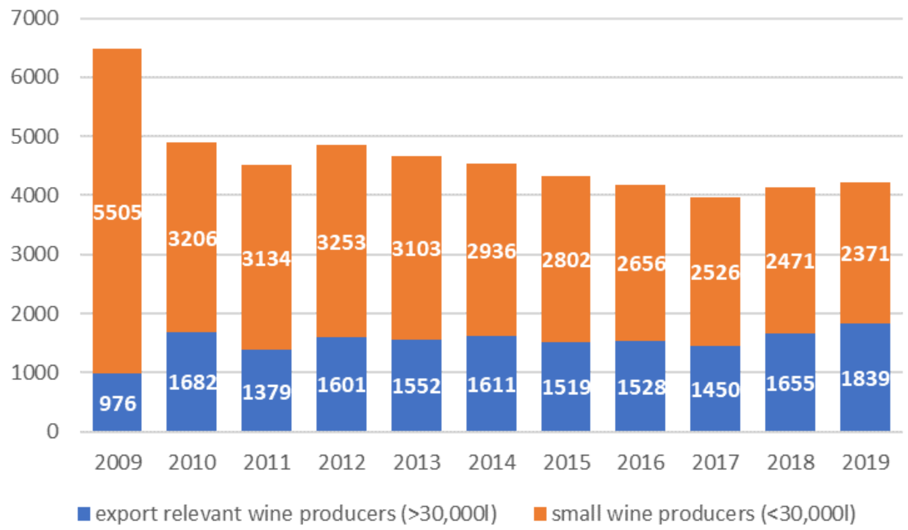

*Note*. The data are from “State of the World Vitivinicultural Sector in 2019”, by OIV, 2020a, p. 8 and 10 (https://www.oiv.int/en/technical-standards-and-documents/statistical-analysis/state-of-vitiviniculture). Copyright 2020 by the International Organisation of Vine and Wine.

The structure of the Austrian wineries changed over the last 30 years in terms of size and number. On the one hand, there was a decline in the number of wine-producing companies, mostly those owning less than 1 hectare (ha). On the other hand, the average size of wineries increased, mostly those possessing more than 5 ha. Thus, there was a shift towards less but larger wine-growing companies. In 2015 the average size of a winery was 3.22 ha which is higher than 1.28 ha in 1987 (Heidinger, 2020). However, Austria’s wine industry is still characterized by a small-scale structure. The area of 46,500 ha is being managed by 14,100 vintners of which 4,000 bottle the wine themselves. A comparison with Australia (164,000 ha and 2,000 bottling wine producers) highlights the small-scale structure (Austrian Wine Marketing Board [AWMB, 2020a).

Further, the Austrian wine industry is dominated by family-owned enterprises (AWMB, 2020a). Fernandez and Nieto (2005) observed the export activities of family-owned small and medium-sized enterprises (SMEs) to determine their level as well as willingness of internationalization. Family firms are restricted towards internationalizing due to a lack of sufficient resources (e.g., capital) as well as a certain internal blockade (e.g., conflicting goals and values). The authors found that the tendency to export is smaller for family SMEs than non-family SMEs since they export less. However, the younger generations of family SMEs have a higher willingness to export due to their knowledge and skills. Another way to increase internationalization is to collaborate with another company to obtain the relevant resources (ibid).

The distribution of wine producers with a sales volume less than 30,000 litres and those with more than 30,000 litres is shown in figure 6. Wine estates with sales volumes of more than 30,000 litres are considered relevant for export.

**Figure 6. Number of small and export-relevant Wine Producers in Austria.**

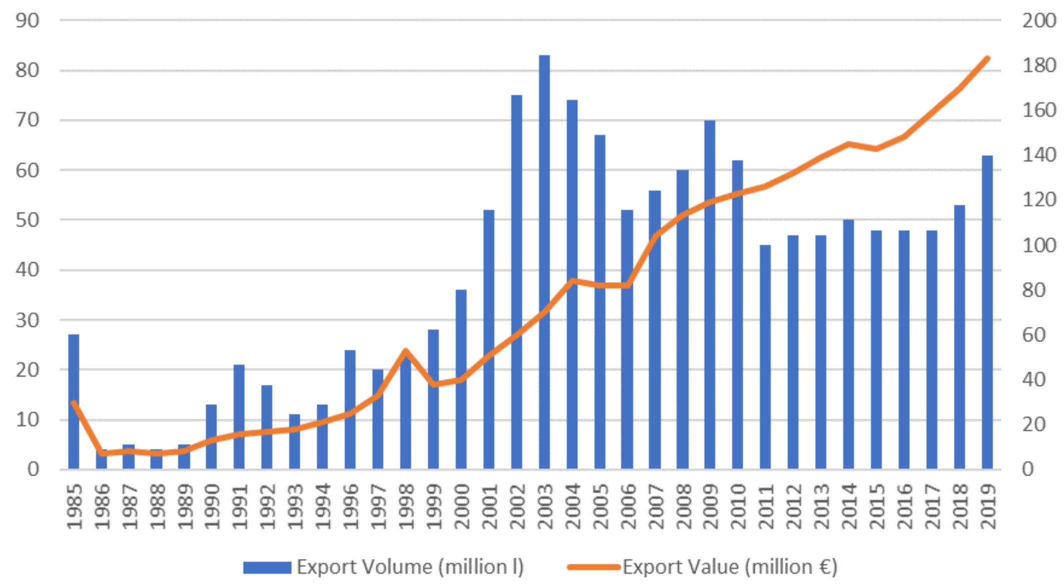



*Note*. Reproduced and adapted from “Dokumentation Österreich Wein 2019”, by Heidinger, 2020, p. 43. Copyright 2020 by the Austrian Wine Marketing Board.

As demonstrated in figure 6, the number of wineries who sell over 30,000 litres has been increasing sharply from 2009 to 2019, while the number of small wineries (especially with sales volumes of less than 5,000 litres) has decreased. This indicates a progressing structural change in the Austrian wine industry causing a rising competitiveness and the need for more internationalization (Heidinger, 2020).

Along with the shift in the global wine industry towards more international trade, Austria’s wine exports reached 183 million EUR by value for the first time in 2019, and 63.6 million liters by volume. Additionally, it is exported to 102 countries with Germany, Switzerland, USA, Netherlands, and Scandinavian countries being the leading export markets. As a comparison, in 2009 there were only 64 export markets attained. China became the 10$^{th}$ most important importer of Austrian wine by reaching a growth rate of approximately 87% compared to 2018 (AWMB, 2020b; Heidinger, 2020). The overall increase of Austria's wine exports between 1985 and 2019 can be seen in figure 7.

**Figure 7. Austria's Wine Exports 1985-2019.**[2]




*Note*. Reproduced and adapted from "Dokumentation Österreich Wein 2019", by Heidinger, 2020, p. 86. Copyright 2020 by the Austrian Wine Marketing Board.

White wine, especially *Grüner Veltliner* and *Riesling,* was the main driver for the growth in exports and sales. However, also red wines such as *Blaufränkisch*, *Zweigelt*, etc. gain more and more recognition worldwide. *Grüner Veltliner* (24% market share) and *Blauer Zweigelt* (9.7% market share) were the most important vine varieties in 2019 (Heidinger, 2020).

To conclude, the small-scale business structure causes several disadvantages against (industrialized) competitors in the global wine market. These include small production quantities, poor economies of scale, hardly known brands as well as low advertising budgets. However, it has a competitive advantage due to its high quality and authenticity. Since Austrian wine only contributes 1% to the total wine production worldwide, it needs to be successfully positioned in a valuable niche sector by developing a unique identity. This valuable identity consists of the four factors (1) producer, (2) vine variety, (3) origin and (4) type of wine (AWMB, 2020a).

[2] No data available for 1995.

### *3.2 Wine growing areas and regions*

The four federal provinces Burgenland (13,100 ha), Lower Austria (28,145 ha), Vienna (637 ha), and Styria (4,633 ha) are the major wine growing areas and dispose of 17 individual wine growing areas. These smaller wine growing areas are defined by the quality wines typical for their region, based on the DAC (Districtus Austriae Controllatus) regulations. DAC is a geographic indication that prohibits an interchangeability of the grape production and represents high quality wines. It is subject to many regulations and is used as a marketing tool. A specific area can choose the number of wines it defines as DAC wines but must first coordinate the strategy with the National Committee (ministry of agriculture). DAC wine growing areas are for instance *Weinviertel DAC* (Lower Austria) and *Südsteiermark DAC* (Styria) (AWMB, 2020a).

Moreover, Lower Austria, Burgenland and Vienna belong to the wine growing region *Weinland*, and Styria has its own region *Steirerland*. An additional wine growing region is the so-called *Bergland* (237 ha) that includes the federal provinces Carinthia, Salzburg, Tyrol, Upper Austria, and Vorarlberg (AWMB, 2020a).

# 4 Market Entry Mode Choice

Increased globalization has led, inter alia, to the internationalization of firms. Some existing theories on the internationalization of a firm as well as the selection of foreign market entry modes will be discussed in this chapter. The focus will mainly lie on the entry mode **export** due to its significance for the research subject.

## *4.1 Theories of Internationalization*

Over the course of time, researchers have developed various theories and models of the internationalization of a firm. Internationalization is defined as "*the process, methods, and motivations that firms have for choosing to operate internationally, determining upon how and where to do business internationally, and how their operations should change and develop in the future*" (Reid & Walsh, 2003, p. 290). Only certain theories will be discussed in this section due to their superior relevance for the chosen research topic. However, this decision does not diminish the fundamental relevance of other existing theories.

One prominent theory of internationalization is the **transaction cost theory** (TCT) which has been discussed by many scholars. The TCT raises the importance of minimizing the transaction costs when choosing an entry mode (Parola et al., 2013). Transaction costs were first defined by Coase as the "*costs of using the price mechanism*" (Coase, 1937, p. 390). Williamson (1979) argues that transaction cost analysis is based on the behavioral assumptions that some agents are subject to bounded rationality and opportunism. Bounded rationality is caused by imperfect information about actors in the market (Forsgren, 2017). Opportunism can cause "*self-interest seeking with guile*" (Williamson, 1979, p. 234). Moreover, transaction costs, including the costs of searching and negotiating with a partner as well as monitoring and controlling the performance of the contract partner, influence the choice of market entry mode. For instance, if the transaction costs due to searching for a partner and setting up a contract are rather high, a wholly owned subsidiary (WOS) is preferred over a joint venture (JV) (Williamson, 1985; Agarwal & Ramaswami, 1992). Especially in emerging economies such as China, the minimization of transaction costs plays a major role due to rather high transaction costs and limited access to resources (Reid & Walsh, 2003).

Johanson and Vahlne (1977) established the **Uppsala internationalization process model**, another renown theoretical approach. The Uppsala model describes the sequential internationalization of a firm which gradually increases its commitment to the foreign market as its knowledge of this foreign market grows. This is called the *establishment chain* of a firm: after entering a foreign market via exporting, the firm engages representatives abroad. Later, these intermediaries get substituted by the firm's sales organization before it sets up its own production. Another key element of the Uppsala model is the so-called *psychic distance* between the home and the host country. This term explains the differences in factors such as language and culture. According to Johanson and Vahlne (1977), the foreign markets that a firm explores become more psychic distant to its home country over time. Moreover, the model highlights state aspects (market commitment and knowledge) as well as change aspects (current business activities and commitment decision) of internationalization. State aspects impact a firm's resource commitment and the performance of current business activities, and vice versa, these change aspects affect market knowledge and commitment (Johansen & Vahlne, 1977, 1990).

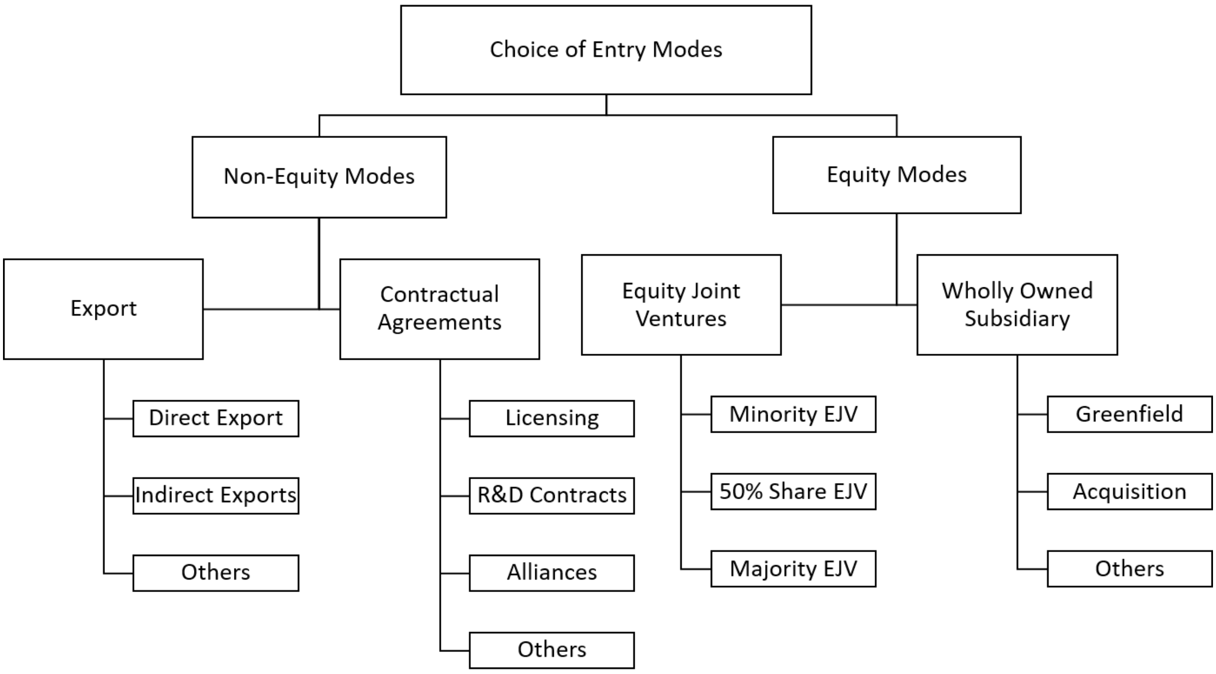
### *4.2 The Choice of Market Entry Mode*

Many scholars have depicted the choice of market entry mode as a critical issue and an important strategic decision. Additionally, the entry mode decision affects the success of a firm's entry into a foreign market in the long-term (Agarwal & Ramaswami, 1992; Luo, 2001; Datta et al., 2002). Sharma and Erramilli (2004) define entry mode as

> "*a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations (i.e., via export modes), or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly owned operations)*" (Sharma & Erramilli, 2004, p.2).

Pan and Tse (2000) developed a framework on the choice of market entry modes, the so-called hierarchical model of market entry modes which is illustrated in figure 8. They differentiate between non-equity modes, where the choice is between export or contractual agreements, and equity-modes which are divided into wholly owned subsidiaries and equity joint ventures (Pan & Tse, 2000).

**Figure 8. The Hierarchical Model of Market Entry Modes.**




*Note*. Reproduced from "The Hierarchical Model of Market Entry Modes", by Pan and Tse, 2000, *Journal of International Business Studies*, 31 (4), p. 538 (https://doi.org/10.1057/palgrave.jibs.8490921). Copyright 2000 by the authors.

When deciding between equity and non-equity modes, a firm needs to consider various factors, for instance the resource commitment, and the level of control. By examining more than 10,000 market entries by foreign companies into China, the authors not only came up with this model, but also analyzed factors influencing the choice of market entry mode. Through analyzing country-specific variables (from host and home country), they found out that macro-level factors such as power distance substantially influence the first level of this hierarchy whereas micro-level factors such as distribution channels are more relevant for deciding between the different forms of equity and non-equity modes (Pan & Tse, 2000).

Equity modes, which consist of either equity joint ventures (EJV) or WOS need a great commitment of resources, especially finances and time (Pan & Tse, 2000). EJVs are described as share-based partnerships between at least two partners that invest in a new company (joint venture) in which ownership and control are split according to their shares (Hollensen, 2011). WOS can exist in various forms, namely as greenfield investments as well as acquisitions. Greenfield investments are completely newly established subsidiaries, whereas the latter refers to the acquisition of an already existing firm in the foreign market (ibid).

In contrast, independent establishments are not necessary for non-equity modes and the relationship with partners can be contractually regulated. To be precise, non-equity modes differ mainly in the extent of the associated risk, control, return, and resource commitment from equity modes. Moreover, they are subdivided into contractual agreements and export (Pan & Tse, 2000). Contractual agreements can exist in various forms, for instance in the form of licensing or (strategic) alliances. The former refers to a market entry mode in which one firm (licensor) begins a contractual agreement with another firm abroad (licensee). Within the framework of the contractual agreement the licensee is granted the right of use over certain belongings of the licensor (Albaum et al., 2016). Whereas an alliance is a non-equity cooperation between two or more partners (Hollensen, 2011). Export will be discussed in more detail in section 4.3.

Scholars have discussed the choice of market entry modes including their differences ever since it became an important issue in international business research. Among these, the major characteristics which were identified are (1) capital commitment, (2) management commitment, (3) control, (4) risk, (5) potential profits, and (6) input costs. The scope of these characteristics may help determine the most suitable entry mode (Wach, 2014).

Moreover, the entry mode selection is a rather complex process which is affected by various factors. Hollensen (2011) classified them into (1) internal factors, (2) external factors, (3) desired mode characteristics, and (4) transaction-specific behavior. These factors affect the level of internalization, and consequently the choice of entry mode (Hollensen, 2011).

Internal factors include firm *size, international experience*, and characteristics of the *product. Firm size* is characterized by the available resources a firm possesses. Moreover, a higher international involvement can be achieved by owning the necessary resources. SMEs usually have a low resource availability and therefore mostly choose export modes which have a low resource commitment. The *international experience* by the firm refers to the previous involvement in international operations (i.e., operations in a certain country or in an international environment in general). The gained experience decreases uncertainty and cost and thus favors an entry mode with a higher resource commitment, such as a WOS. The characteristics of the *product* influence decisions regarding location and marketing strategies. Product differentiation may cause a competitive advantage which needs to be protected, for instance with a WOS (Hollensen, 2011).

External factors, on the one hand, contain the *sociocultural distance* between the home and the host country, the *intensity of competition* as well as the *country risk* and u*ncertainty* which affect the entry mode choice by reducing the internalization. On the other hand, external factors such as *market size and growth*, *direct and indirect trade barriers*, and a *small amount of available export intermediaries* increase the internalization and thus, the probability of choosing JV or WOS rather than export (Hollensen, 2011).

The extent of risk and control, for instance, count to the desired mode characteristics. Transaction-specific factors include the *tacit nature of know-how* and *opportunistic behavior* which may cause transaction costs. Both factors lead to an increasing internalization and therefore favor the choice of equity rather than export modes (Hollensen, 2011).

The contingency view by Gao (2004) describes the interaction between so-called antecedent factors and market entry modes (including their level of control and resource commitment). Firms need to assess the entry modes (linked with their desired level of control and resource commitment) by analyzing the antecedent factors strategy, external environment, internal environment, and relational variables (Gao, 2004).

Since the entry mode selection is an intricate matter, Root (1994) developed three decision rules. First, the *naive rule*, which is applied when a firm considers the same mode for all the foreign markets it enters. This rule can be problematic because of its inflexibility and might prevent the entry into potential markets. Second, the *pragmatic rule* describes the decision of using a workable but not necessarily suitable mode for each foreign market entry. This strategy entails less risk but could limit the opportunity of the firm by applying an entry mode which is not the most suitable one. Third, the *strategy rule* refers to the selection of the most appropriate entry mode for each foreign market by assessing all alternatives (Albaum et al., 2016).

## *4.3 Export as a Market Entry Mode*

This study focuses on the choice between the direct and indirect exporting modes. Therefore, the existing forms of export as well as the current state of research concerning the choice between these two forms are discussed in this chapter.

### *4.3.1 Export Modes*

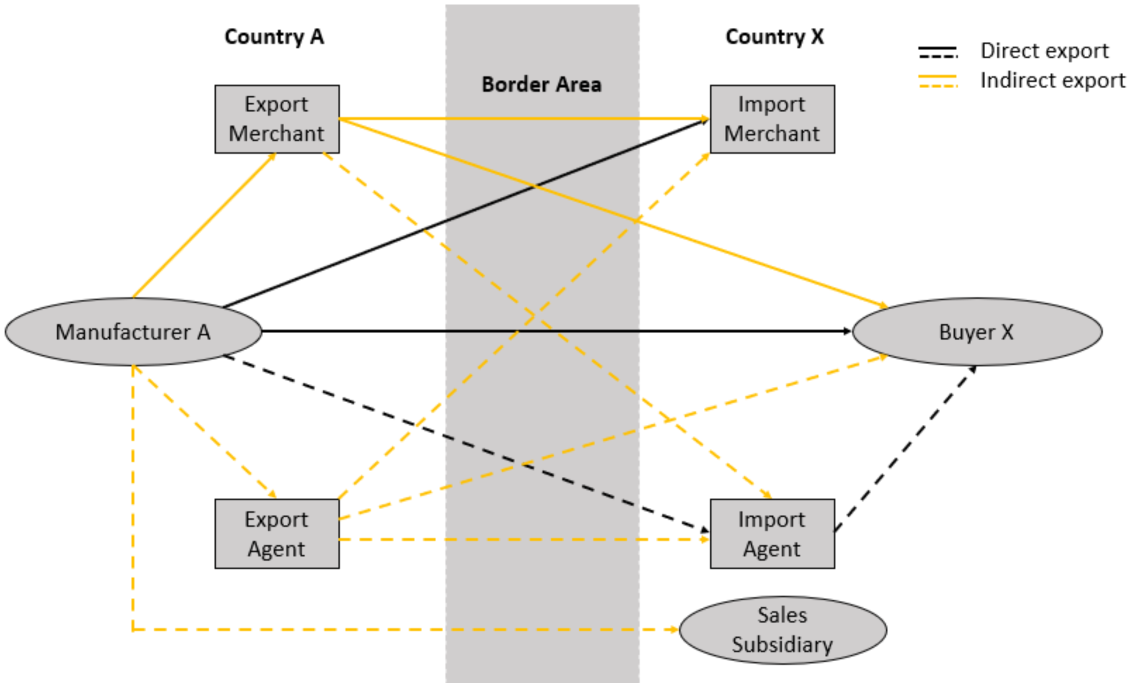
Out of the existing market entry modes, export is the most common one for initially entering a foreign market (Hollensen, 2011). Especially for family-owned SMEs, export is a widely used method (Fernandez & Nieto, 2005). In general, when a firm decides to export it means that the production takes place in the home country of the firm or in a third country and then the goods are sent to the host country, either in a direct or indirect form (Hollensen, 2011). Exporting is a less risky entry mode compared to other alternatives and increases the firm’s international learning experience as well as their sophistication and commitment to other entry modes (Albaum et al., 2016).

The literature on international business has mostly differentiated between firms who establish their own sales subsidiaries and firms who use trade intermediaries to successfully export their goods. However, traditional literature has often only considered exporting firms who directly sell their products to the end-consumers in the foreign market. Despite that, scholars have begun to highlight the importance of trade intermediaries (Felbermayr & Jung, 2011).

In general, exporting is mainly divided into two forms - *direct* and *indirect exporting* - which are characterized by the way transactions flow between the exporting firm and the importer in the foreign market (Albaum et al., 2016). *Direct export* is distinguished by a firm dealing with export activities and foreign intermediaries itself whereas *indirect export* means that the producer engages another local company to handle anything involved with the export (Hollensen, 2011).

In both forms of export, intermediaries can be used. In the case of direct export, intermediaries are based in the host country, in indirect export in the home country (Albaum et al, 2016). They are called trade intermediaries when sellers and buyers are located in separate countries, and include wholesalers, retailers, or trading companies in the home and in the host country (Abel-Koch, 2011).

**Figure 9. Direct and Indirect Export.**




*Note*. Reproduced from “International Marketing and Export Management“, by Albaum et al., 2016, p. 307. Copyright by the authors.

Figure 9 illustrates the interaction pattern of the two major export modes. Direct export takes place when selling directly to a buyer or import merchants or import agents. Whereas indirect export occurs when manufacturers sell their goods through foreign sales subsidiaries or use export merchants or export agents who then ship or resell the product to the import agents, import merchants or to the buyer (Albaum et al., 2016). The following subchapters will explain the different types of direct and indirect exporting more precisely.

#### 4.3.1.1 Direct Export

*Direct export* refers to directly selling goods to a foreign buyer, import agent or import merchant (Hollensen, 2011). This requires an export division in the home country which is either directly involved in export activities or coordinates and controls these of an intermediary. In general, there are various ways to export directly which will be explained in this chapter. However, a mix of direct export types can be applied when entering a foreign market (Albaum et al., 2016).

Major modes of direct export include *import agents* (representative) and *import merchants* (distributors). In contrast to agents who represent the exporters in the foreign market and entrust importers with the shipping, distributors possess and stock the goods and thus take on the risk of the operations. Further, their payment consists of the difference between buying and selling prices, whereas agents are mostly paid a commission (Hollensen, 2011).

In addition, exporting directly to a buyer in the foreign market (instead of using an intermediary) requires an export department. Three forms of such home-country-based organizations are distinguished: (1) built-in export department (sales manager), (2) separate export department (fully integrated organization handling export activities), and (3) export sales subsidiary (quasi-independent organization with buy-and-sell-arrangement with the parent company) (Albaum et al., 2016).

There are several advantages of using an intermediary over directly selling goods to a foreign buyer. First, it is a quite easy, cheap, and viable alternative. Therefore, some exporters might establish their own sales subsidiary as their sales volume has reached a certain level. Second, intermediaries possess special skills and knowhow of the foreign market. Last, they have contacts to networks and institutions (e.g., political institutions). Thus, in countries such as China, choosing an intermediary over a sales branch might be more efficient. However, if firms prefer to have control over their export activities as well as a greater scope for decision-making and action, establishing a sales subsidiary might be the better alternative (Albaum et al., 2016).

#### 4.3.1.2 Indirect Export

Producers can export indirectly through either *international marketing groups* or *cooperative organizations*. The first option refers to intermediaries in the form of *merchants* or *agents*. An export merchant acquires the goods from the producer and resells them to the consumers in the foreign market. *Merchants* market the products internationally, whereas the producer deals with domestic marketing. Special types of export merchants are trading companies and export desk jobbers (Albaum et al., 2016). Trading companies can be distinguished further according to the services they offer (e.g., shipping or warehousing) (Hollensen, 2011). Export desk jobbers know where to buy and sell and therefore find reliable clients for the products. Nevertheless, they are not useful for establishing sales markets in the long term (Albaum et al., 2016).

On the contrary, agents do not purchase the product from the manufacturer. According to Albaum et al. (2016) the following types of *export agents* are distinguished.

- *Export commission houses* (export buying agent) sell the product to buyers in the foreign market and handle the transportation of the goods, whereas the producer only engages with the commission houses and not with the buyers. It is associated with a low financial risk but also low control.
- *Confirming houses* are middlemen who confirm the order of a foreign buyer and pay the producers as soon as the goods are transferred abroad.
- *Resident buyers* represent various foreign buyers who aim for a long-term liaison with their sources of supply in the producer's market.
- *Brokers* are specialized in establishing contracts between buyers and sellers without buying or selling the products itself, but by getting paid a commission by its client.
- *Export management companies* (EMC) handle export activities for allied producers who are not competitors. Additionally, the EMC acts in the name of the producers it represents. Most EMCs enter buy-and-sell arrangements with their clients and handle all export activities. Thus, the producers need to fill the orders, but the main responsibility lies in the hands of the EMC.
- *Export agents of manufacturers* act, in contrast to an EMC, in their own name when representing their clients internationally. They receive a fixed commission from their clients. Such agents are beneficial when firms want to export only small amounts or penetrate new markets.

However, it is possible that a firm is not assigned to a particular type but rather fulfills functions from different types of agents. In addition, using these agents can be advantageous to producers due to a small financial effort, as well as the agent's market knowledge and existing contacts. Disadvantages are limited decision rights in sales activities as well as missing interactions with contacts abroad (Albaum et al., 2016).

*Cooperative organizations* are producers who own an export department. They are distinguished into (1) exporting combinations and (2) piggyback marketing. The former, refers to an association of competitive firms who aim at selling their products abroad. The latter describes producers (carriers) who sell their own products and those of others (suppliers) within their own sales subsidiaries in the foreign market (Albaum et al., 2016). Piggyback marketing is often used to gain a high level of marketing support without establishing sales and distribution channels in the host market (Katsioloudes & Hadjidakis, 2007).

To summarize, when a firm chooses export as the suitable entry mode, they further have to choose different modes of export distinguished by distinct levels of investments, commitment, risks, and control. Direct exporting is preferred when the firm stronger relies on its foreign market operations and therefore needs a higher resource commitment (including a higher risk) as well as a certain level of control. However, when the firm and the host market are relatively small or complex, an import agent or merchant obtaining necessary knowledge and skills might be the better option. Indirect export is preferred when firms export smaller quantities and thus require a lower level of commitment (Katsioloudes & Hadjidakis, 2007). Depending on the activities a producer wants to outsource as well as the (financial) resources it wants to commit, the choice is between export merchants and agents or selling goods through a foreign sales subsidiary.

### *4.3.2 Export Mode Choice*

Researchers have been analyzing why firms rather select indirect over direct exporting, as well as the choice of intermediaries. The export mode choice depends on characteristics of the host country, such as the cultural distance between the two markets (Peng & Ilinitch, 1998), the expropriation threat, the lack of enforceable international contracts (Felbermayr & Jung, 2011) but also on product and firm characteristics (e.g., firm size; Abel-Koch, 2011).

The **transaction cost approach** suggests that the choice of direct or indirect export channels is made based on the minimization of export-related transaction costs. Transaction costs associated with export can be divided into search and negotiation (*ex ante*), as well as monitoring and enforcement (*ex post*) costs (Williamson, 1985). Transaction costs can be especially high in culturally distant markets due to lacking market knowledge or language barriers which can increase search and negotiation costs. Thus, if intermediaries manage to decrease their clients' transaction costs relative to their costs of direct export, indirect export is chosen and vice versa (Peng & Ilinitch, 1998; Peng & York, 2001). Monitoring and enforcement costs are low in direct exporting if investments need to be made in specific assets concerning the end-consumer, such as a training of the sales team. Indirect exporting is more efficient in terms of these *ex post* costs when an investment is necessary only for nonspecific assets as they require less monitoring and ease contract enforcement (Peng & Ilinitch, 1998).

However, the use of trade intermediaries might cause agency costs (Peng & Ilinitch, 1998). Jensen and Meckling (1976) defined the so-called principal-agent conflict. This phenomenon well known in **agency theory** explains the relationship between two parties, i.e., the principal and the agent, who might not act in each other's best interests. In terms of exporting, the conflict can be the following: Principals (exporters) might want to maximize their export performance by using agents, while agents (intermediaries) might seek for a maximum service fee with minimum effort. Moreover, agents might misstate their knowledge and skills (e.g., hide relevant information about the foreign market) to principals, since the principal cannot foresee the agents' actions. To overcome these problems, the information asymmetry can be decreased by the principal by setting suitable incentives or investing in monitoring systems (Peng & York, 2001). These activities are subject to agency costs which are "*the sum of monitoring expenditures by the principal, the bonding expenditures by the agent, and the residual loss*" (Jensen & Meckling, 1976, p. 308). Bonding costs might arise when the agent wants to assure the principal that it will act in its best interests. A divergence usually occurs between the agent's decisions and the decisions which would have maximized the principal's welfare. The residual loss is the cost of the welfare reduction of the principal because of this divergence (Jensen & Meckling, 1976). Intermediaries need to ensure that the potential agency costs are lower than the monitoring and enforcement costs which would occur in direct export to be hired by the exporter (Peng & Ilinitch, 1998; Peng & York, 2001). A potential problem in the principal-agent relationship, which often arises when inexperienced SMEs engage intermediaries, can be solved by establishing outcome-based contracts which would align both parties' interests. This solution would lower monitoring and enforcement costs but requires the agent's willingness to take title to the goods (Peng & Ilinitch, 1998).

The **resource-based view** (RBV) implies that a firm's resources need to be valuable, rare, inimitable, and non-substitutable to have a competitive advantage (Barney, 1991). Resources are "*tangible and intangible assets firms use to conceive of and implement their strategies*" (Barney & Arikan, 2001, p.138). Especially intangible resources (e.g., technology) are important for attaining a competitive advantage which is crucial when entering a new market (Fernandez & Nieto, 2005). In terms of exporting, export intermediaries might possess intangible resources in the form of foreign market knowledge or negotiation capabilities which help producers to reduce search and negotiation costs during transactions and potentially booster the export performance (Peng & Ilinitch, 1998; Peng & York, 2011). In addition, the willingness of taking title to the goods by the trade intermediary can be considered as an intangible resource (Peng & Ilinitch, 1998).

Fernandez-Olmos and Diez-Vial (2010) examined the choice between direct and indirect export in the Rioja wine industry in Spain. They tested the influence of firm size, product quality, intangible resources, and international experience on the export mode choice. By conducting a study with 117 Spanish wineries, they found out that larger firms and internationally experienced wineries (based on sales abroad, years of exporting, and number of export countries) rather export directly than indirectly. However, intangible resources (reputational and technological resources) and high-quality wines do not significantly affect the export mode choice (ibid).

Hienerth and Ruhdorfer (2010) analyzed the use of export intermediaries by SME wine estates in Austria. According to their research, internal factors such as limited resource availability, high quality, and a potential product standardization favor indirect export modes. Further, an external environment of the home country which is characterized by low market potential, high competition, and export support paves the way for indirect export. The same applies to foreign markets that are highly competitive and culturally distant and have efficient distribution channels, low market potential and a liberal import policy (ibid).

Additionally, Hessels and Terjesen (2010) examined why SMEs export and which export mode they choose. Their analysis was based on the **institutional and resource dependency theory**. Both theories describe the relationship between an organization and the actors in its environment. Further, they assume that organizations have limited decision-making power due to various external influences and want to enhance their legitimacy with external stakeholders. However, they differ in some issues. The resource dependency theory focuses on organizations that use the resources existing in their environment and argues that a resource scarcity forces them to use innovative alternatives. Thus, these companies aim at decreasing their resource dependency. Whereas the institutional theory points out that organizations hold certain processes that are considered legitimate to use due to their norms and values. The authors find that SMEs are more likely to export when their organizational environment is perceived as increasingly global. However, the institutional theory cannot explain the export mode choice, but the resource dependency theory can. SMEs prefer exporting directly rather than indirectly when their home country offers access to knowledge and technology as well as low production costs. Such advantageous conditions in the home country help developing resources and capabilities which are necessary for direct export. In contrast, SMEs rather choose indirect export when they can easily access home country-based financial resources (i.e., banks and investors; ibid).

Felbermayr and Jung (2011) developed a model on the choice between a sales subsidiary or a trade intermediary. They concluded that the choice depends on a certain trade-off: On the one hand, the manufacturer can save fixed costs by engaging a foreign trade intermediary but might face a hold-up problem due to a lacking contract execution. On the other hand, the manufacturer can invest in its own sales division to overcome this problem. The authors observed that the producers are categorized by this trade-off. Firms with low quality products, poor marketability of goods, and high variable production costs, rather choose trade intermediaries, whereas firms with high fulfillments of those attributes rather choose wholesale subsidiaries (ibid).

Scholars also examined the types of producers that either export directly or indirectly. Besides domestic sales, the most productive firms export directly, the second most productive choose to export directly and via export intermediaries, followed by the ones only exporting indirectly and lastly, those only selling their goods in the domestic market (Lu et al., 2017). Abel-Koch (2013) observed the influence of firm size on the export mode choice. Her study assumed that smaller firms tend to choose indirect export, whereas larger firms favor direct export. Smaller and less productive firms prefer using an intermediary because of the fixed cost reduction when accessing a foreign market. Larger and more productive exporters can afford their own distribution channel in the host market. Davies and Jeppesen (2015) agreed with that view. The authors compared direct, indirect, and non-exporters among various countries and found that the export modes differ in sales per employee (performance). When trade barriers are high, these differences between direct and indirect exporters increase but decrease between indirect and non-exporters. Whereas an increase in the domestic market size has the opposite effect.

Moreover, other firm characteristics affect the export mode choice, such as product innovation, product quality, and skill intensity. It was revealed that a producer with a new product rather uses an export intermediary than exporting it directly. This might be due to the high resource commitment associated with searching for suitable foreign customers for the new product. Moreover, a firm with a high share of university graduates (i.e., its skill intensity) might have a competitive advantage and thus, rather exports directly than sharing its knowledge with export intermediaries. The same applies for firms producing high-quality goods (Abel-Koch, 2013).

To conclude, the choice between direct and indirect export depends mainly on the reduction of transaction and agency costs as well as the resources and capabilities of a firm. Further characteristics of the firm, the product or characteristics of the home or host country affect this decision. However, intermediaries (import and export) play a major role in export modes due to enabling a broader scope of action and decision for firms willing to export, whether directly or indirectly.

# 5 Methodology

This following chapter introduces the methodology used for this study. First, the research subject including the research questions is explained. Second, the research design is outlined. Third, the data collection (expert interviews) is described, followed by the data analysis.

## *5.1 Research Subject and Questions*

As shown in chapter 4, various theories exist on the entry mode selection. The choice between direct and indirect export modes has been examined by many scholars. However, there is little research on the export of Austrian wine to China. Therefore, the objective of this thesis is to answer the following research questions (RQ).

> RQ1: "*Which mode of export do Austrian wine estates choose when exporting to China?"*
>
> RQ2*: "Which motives do Austrian wine estates have for exporting to China?"*
>
> RQ3*: "Which major challenges or barriers do Austrian wine estates perceive when exporting to China? "*
>
> RQ4*: "Do Austrian wine estates consider a sequential process of internationalization when exporting to China?"*

## *5.2 Research Design*

To begin with, this thesis uses a qualitative research method. Qualitative research deals with material that cannot be quantified but needs interpretation to be adequately explored. For instance, conducting an interview results in a transcript which is then analyzed, interpreted, and processed into qualitative data. In contrast, quantitative research methods use statistical evaluation measures based on the collected quantifiable data (e.g., through standardized questionnaires; Strübing, 2018). Qualitative research is hard to define, but it is known to be empirical, systematic, and flexible. Qualitative and quantitative research are both empirical and systematic. However, qualitative research methods regard flexibility as more important than systematics which has a higher value in quantitative research (Hussy et al., 2010). This research underlies a qualitative approach due to the little consideration and exploration of the export mode choice of Austrian wineries in China in previous research. To retrieve information on the research subject, guideline-based **expert interviews** were selected. Afterwards, the data is processed and evaluated through the **qualitative content analysis** by Mayring (2014). It is a suitable method of analysis when wanting to acquire information (Bogner et al., 2014). The following subchapters offer a more precise description of the mentioned methods for collection, processing, and analysis of data.

### *5.3 Data collection*

Expert interviews were found suitable for collecting the data for this study. Interviews are a common method for data collection in qualitative research. An interview is defined as a conversation in which the roles are asymmetrically distributed, namely the interviewer asks questions, and the interviewee responds to them. Its goal is to obtain information necessary for answering research questions (Hussy et al., 2010). There are several types of interviews, for this research, expert interviews were conducted. Expert interviews have been first explored in the beginning of the 1990s but only gained relevance a decade later and are now a common method in empirical research. They are a fast and efficient method of gathering data (Bogner at el., 2009). In contrast to other types of interviews, an expert interview is not defined by its methodological approach but by its object of interest: the expert. However, there is no definition of the expert interview since various forms (quantitative and qualitative approaches) exist (Bogner et al., 2014).

Bogner and Menz (2009) typologized exploratory, systematizing, and theory-generating expert interviews based on their main purpose. First, the exploratory expert interview serves as an orientation of a new or barely defined topic. Second, the systematizing expert interview aims at gaining access to relevant information and knowledge possessed by the expert. Last, the theory-generating expert interview tries to develop and reconstruct subjective expert knowledge, i.e., decision making and action-oriented patterns (Bogner & Menz, 2009). Expert interviews are always semi-structured, regard-less of their position in the research process (i.e., systematizing, exploratory, and theory-generating interviews). However, the interview of this thesis can be assigned to a **systematizing** type due to the goal of obtaining a comprehensive collection of the experts' knowledge regarding the research topic. The interview serves to systematically collect information, whereas the expert has the function of an "advisor": we learn directly from the experts in a comprehensive, analytical way. To query the knowledge effectively, an interview guideline is necessary (Bogner et al., 2014). Thus, the expert interviews conducted in this thesis can be also referred to as guideline-based interviews. A guideline-based interview is a semi-standardized interview. There is no exact definition since it is often used as a collective term for semi-standardized interviews and can refer to different types of interviews, for instance narrative, focused or expert interviews. However, it uses a guide which serves as a guideline for conducting the interview. The order of the questions is adapted to the course of the interview and ad-hoc-questions are possible (Hussy et al., 2010).

### *5.3.1 Selection of Experts*

Bogner et al. (2014) define an expert as a person who (based on a specific practical or experiential knowledge that relates to a clearly limitable problem area) can structure the concrete field of action in a meaningful and helpful way for others with their interpretations. Expert knowledge can therefore be described as practical, orienting, and guiding for other people. This knowledge advantage can be used by the expert in their personal or professional environment, but it can be also transferred to other areas and used in other contexts. Moreover, the (targeted) selection of persons to be interviewed is primarily oriented towards the research question(s). It is important to find interview partners who can provide information on the chosen research topic (Bogner et al., 2014).

In this study, the field of expertise is the Austrian wine industry including its export opportunities. Therefore, Austrian wine producers as well as experts working in institutions that deal with the subject of this research were chosen as suitable interviewees. This heterogenous sample is advantageous due to the potentially different perspectives on the given topic. Regarding the optimal size of the sample, various opinions exist. Helfferich (2009) suggests a sample size between 6 and 120, whereas 6 is more realistic to be achieved in a thesis due to the limitations of resources (e.g., time). The selected wine estates as interview partners are portrayed in table 4.

**Table 4. Characteristics of the Interviewed Wine Estates**

| Interview Partners | Annual production volume (0.75 l bottles) | Size (ha) | Export Rate | Amount of Export to China | Market Experience |
|---|---|---|---|---|---|
| WE1 | 420,000 bottles | 76 ha | 40% | 500-1,000 bottles | 10-12 years |
| WE2 | 600,000 bottles | 80 ha | 50-60% | 50,000-70,000 bottles | 10 years |
| WE3 | 350,000 bottles | 30 ha | 30% | 3,500-4000 bottles | 10 years |
| WE4 | 3 million bottles | 400 ha | 50% | 10,000 bottles | 20 years |

*Note*. Data generated through expert interviews and emails.

As listed in table 4, four wine estates from the major wine growing areas in Austria were interviewed. They are pseudonymized. All interviewed wine estates produce more than 30,000 liters and are therefore considered export relevant according to the AWMB (2020a; chapter 3). Their export rates differ, as well as their sizes (in ha). Further, WE1 named Germany, USA, Sweden, and Switzerland as their most important exporting countries. WE2 listed Germany, the Netherlands, the USA, the Baltic States (Estonia, Latvia, Lithuania) and China as their major exporting countries. According to WE3, the countries with the highest share of their exports are USA, Russia, and the Scandinavian countries. WE4 said that Germany, the Netherlands, USA, Canada, and Nordic countries are the countries where they export most of their wine to. Therefore, only WE2 named China (Mainland) as a major exporting country, whereas the others still have rather low export rates in this market.

Moreover, Michael Tischler-Zimmermann, the manager of the Asian market at the Austrian Wine Marketing Board (AWMB), Stephanie Lobner, managing director of Premium Estates Austria, and Michael Thurner, exporter of Austrian wine to the Asian market, were determined as suitable interviewees. All interview partners were contacted per email and agreed to participate in an interview.

### *5.3.2 Interview Guide*

An interview guide should be flexible and not standardized to enable experts adding unexpected aspects to the topic and interviewers asking additional spontaneous questions (Meuser & Nagel, 2010). The emphasis is on a structured sequence of concrete and precise questions (Helfferich, 2014). Moreover, interview guides have a dual function: they structure the subject area of the study and are an important tool in the interview (Bogner et al., 2014).

The interview guide of this study was generated according to the SPSS method by Helfferich (2009). This method includes the four steps (1) collecting, (2), testing, (3) assorting and (4) subsuming. First, relevant questions are collected. Second, they are structured and reduced based on the theoretical background that was reviewed before. Third, the questions are bundled according to certain aspects which were determined beforehand. For instance, questions regarding the export mode choice. Last, for each bundle sorted in the third step, a simple narrative-generating impulse under which the individual aspects can be "subsumed" should be found (e.g., a question addressing motives for exporting to China). To test the functionality of the interview guide and ensure the comprehensibility of the questions, a pretest was done on the 20th of February 2021. The guide was then finalized by carrying out necessary improvements and corrections.

Prior to organizing the interviews, extensive literature research was conducted to gain an initial overview of the export mode choice as well as the Austrian and Chinese wine industry. With sufficient knowledge about this research subject, the interview guidelines were finally created. The interview questions were primarily derived from the research questions formulated in advance.

Additionally, two different interview guidelines (A and B) were used due to different perspectives on the research topic. One for the wine estates (A), and another one (B) for the experts Tischler-Zimmermann, Lobner and Thurner. They are attached in the appendix. Both guidelines consist of open and closed questions and have two major parts: first, background questions about the company/wine estate and the expert; second, questions regarding the research subject. The latter part is further divided into questions about (1) the export mode choice, (2) the barriers and challenges companies are facing, (3) the motives and opportunities for exporting wine to China as well as (4) the potential application of a sequential internationalization process.

The interview guideline was sent to the experts beforehand. In systematic expert interviews this can be helpful to ensure that the interviewees possess the relevant knowledge asked at the interview (Bogner et al., 2014).

### *5.3.3 Conduct of the Interviews*

The interviews were held in February and March 2021. They were conducted via video calls on the platforms *Google Meet, Zoom* and *MS Teams* due to the current Covid-19 pandemic that prohibited face-to-face interviews. The interviews were done in all experts' mother tongue German to avoid any limitation in their answers due to potential language difficulties. On average, they lasted 30 to 45 minutes. In the beginning of the interview, the research topic as well as the structure of the interview was briefly outlined. Additionally, potential questions regarding the interview were answered.

The part of the interviews covering the questions was recorded with the online software *Screen Recorder* for an efficient transcription and analysis. The interview partners agreed to being recorded beforehand and signed a consent form if their names are used in this thesis instead of being pseudonymized. Afterwards, the transcription was done in *MAXQDA.* The focus of the transcription of the conducted expert interviews is on the given answers or the relevant information. Therefore, nonverbal gestures or certain behaviors were not important and thus, not mentioned in the transcripts. Since there are no general rules for transcribing interviews, the present thesis established the following rules based on Rädiker and Kuckartz (2019) which are consistently used for all transcripts.

1. Paragraphs are separated by a blank line and marked with an "**I**" for the interviewer and with an "**E**" for the experts.
2. Dialects or colloquial language is transcribed into standard German.
3. Pauses are marked with (.) for 1 second, (..) for 2 seconds, (…) for 3 seconds, and for longer pauses with the corresponding number.
4. The interviewer's affirmative or confirmatory utterances (mhm, aha, etc.) are not transcribed if they do not interrupt the interviewee's flow of speech.

5. Short interjections from the other person, such as "Yes" or "No", are integrated in brackets.
6. Incomprehensible words and passages are indicated by (x).
7. All information that allows conclusions to be drawn about a respondent is anonymized (if they are treated anonymous in this thesis).

The transcripts are not attached to this thesis. If required, they can be requested from the author.

### *5.4 Data Processing and Analysis*

After transcribing the interviews, the qualitative content analysis by Mayring (2014) was applied to process and evaluate the expert interviews. The analysis was performed with the help of the software *MAXQDA 2020*.

The qualitative content analysis is an evaluation method that processes texts that arise in research projects during data collection (e.g., transcripts of interviews). It is a qualitative text analysis which can handle large amounts of material with the technical know-how of quantitative content analysis and capture latent meaning by primarily being qualitative-interpretative. The procedure is rule-bound (it defines both the evaluation aspects and evaluation rules precisely) and thus intersubjectively testable. A central element of the content analysis is that the text is segmented, and categories are assigned to these segments. The category system (the compilation of all categories) is the main tool of the analysis. It is used to process the material and considers only those text segments which refer to the categories. Categories represent aspects of analysis as short formulations and are closely oriented to the raw material in their formulation and can be arranged hierarchically (Mayring, 2014; Mayring & Fenzl, 2019).

Mayring (2014) differs between three basic forms of analysis. First, a **summarizing content analysis** aims at reducing the material to its core parts, paraphrasing, and summarizing in categories. A further differentiation of this method is the **inductive category formation**. This technique considers only parts of the material that are relevant for the research question(s). Categories are defined by a criterion to gather passages in the text material that fit this criterion. Second, the aim of **explication** is to gather additional information to explain, interpret and comprehend unclear text passages.

This form is subdivided into narrow and broad contextual analysis depending on the explicative material used. Third, a **structuring content analysis** has the object of extracting certain components of the text material to evaluate it or to create a cross-section based on predefined ordering criteria. A structure is created by a category system that addresses suitable text passages which are then filtered out. This technique also includes the **deductive category assignment**. The category system is developed before the text material is coded. The categories are established based on previous research and theory. Thus, they are not evolving out of the text as in inductive category formation (Mayring, 2014).

In this research, the **structuring content analysis** was applied. The formation of the categories (called codes in MAXQDA) was mainly **deductive**, i.e., theory-oriented and based on the research questions as well as on the interview guide. The interview guide already determined the structure of the data collection and is thus useful for the category formation (Rädiker & Kuckartz, 2019). However, some of the subcategories were developed **inductively** while coding the text. The final category system is shown below.

- Characteristics of the Chinese Market
    - Chances for Austrian Wine (Estates)
    - Importance of Partners/Relationships/Guanxi
    - Wine Consumption/Preferences
- Market Entry in China
- Export Mode Choice
    - Export Merchant/Agent
    - Import Merchant/Agent
    - Others
- Motives and Opportunities for Exporting Austrian Wine to China
    - Image/Reputation/Representation
    - Market Size
- Barriers and Challenges in China
    - Cultural Barriers
    - Political Barriers
    - Tariff Barriers
    - Challenge: Finding the Right Partner

    - Challenge: Certificates and Regulations
- Uppsala Internationalization Process Model
- Future Developments

To efficiently allocate relevant passages of the text to the categories, each code was defined in advance. This is considered an important step in the qualitative content analysis which is a rule-guided method and thus needs precise definitions of categories (Rädiker & Kuckartz, 2019). Each code was defined in a code memo in *MAXQDA*. Moreover, anchor samples (concrete passages allocated to a code) and coding rules assist the category assignment (Mayring, 2014) and were therefore added in the code memos. An exemplified memo is illustrated in table 5.

**Table 5. Example of a Code Memo**

| Category | Category Definition | Anchor Sample | Coding Rules |
|---|---|---|---|
| Future Developments | Future developments concerning the Chinese wine market, the Austrian wine market, or the global wine market (e.g., the impact of the Covid-19-Pandemic or trade wars). | "*Es wird aber auch wahrscheinlich der Tourismus eine große Rolle spielen. Ich glaube, dass der Tourismus auch den Weinkonsum immens antreibt, das sehen wir auch in Österreich. [..] Je mehr Leute nach Österreich kommen, desto mehr wird man auch dann in China vielleicht die Produkte wieder verlangen, weil man sich halt an den Urlaub zurückerinnern will (Thurner, line 184-191).*" | Assign to this category if experts discuss the future of or potential developments for the export of Austrian wine to China, or for the Chinese and Austrian markets. |

The developed codes were tested on the text material in a trial-run. As a result, some code definitions were revised, and the category system was finalized. With the completed category system, all relevant text passages from the data material were assigned to the categories, and subcategories were established inductively when necessary. Finally, the results were sorted according to the categories. The results of the analysis are shown and discussed in chapter 6.

# 6 Results

The object of this chapter is to present the information gathered in the interviews in a structured form. As described in chapter 5, seven interviews were conducted, transcribed, and evaluated using the structuring content analysis. Since the interviews were held in German, all quotes are cited directly in their original tone but explained in English. The results are shown according to the predefined categories (chapter 5).

## *6.1 Characteristics of the Chinese Market*

Within the interviews, several characteristics of the Chinese Market were named. First, some experts mentioned the importance of the segmentation of the market. Due to the large size of the Chinese market and differences between provinces and cities, a **geographic segmentation** is necessary. Tischler-Zimmermann said that China should be considered as a segmented market due to the various regions. Some wine producing countries have already worked in certain regions and knowledge of wine has been created there. Thus, entering in these areas might be easier and faster for Austrian wine estates.

> „*[..] es ist wichtig zu verstehen, dass China nicht nur ein Markt ist, sondern ein segmentierter Markt. Es gibt verschiedenste Bereiche […] und Regionen, in denen man besser und schneller einsteigen kann, und wo auch die Aufbereitung des Marktes durch andere Weinbauländer stattgefunden hat, ja. Sodass quasi ein Basiswissen an Wein grundsätzlich vorherrscht, auf dem jetzt österreichischer Wein aufbauen kann*“ (Tischler-Zimmermann, line 35-39).

In addition, Lobner mentioned that the purchasing power as well as the willingness to buy wine is higher in metropolises. Residents of larger cities go out more and therefore tend to consume more wine.

> „*Einfach auch weil die Kaufkraft größer ist in den Metropolen, weil die Leute gehen mehr aus, ja auf jeden Fall. Also die Bereitschaft dort auch viel Geld auszugeben für Wein ist überhaupt gegeben*“ (Lobner, line 154-155).

Thurner mentioned that there are a few markets that influence the Chinese market. These are for instance the large wine markets Great Britain, France (because of its restaurants) and Singapore. If something works in Singapore, then the Chinese assume that it (wine brands) will work in China as well.

> „*Und da gibt es halt vielleicht ein paar Märkte, die China ganz stark beeinflussen. Ich glaube, dass das immer noch England ist wahrscheinlich, weil das [..] ein großer und wichtiger Weinmarkt ist. Sicherlich auch Frankreich mit den ganzen Restaurants. Aber auch im asiatischen Bereich sehen wir zum Beispiel Singapur, das sind so Märkte, wo die Chinesen dann schauen, okay wenn das in Singapur funktioniert, dann kann das in China auch gehen*“ (Thurner, line 141-146).

Moreover, preferences for certain wines exist. All experts named the higher consumption of red wines. For instance, WE2 said that red wines, including strong wines rich in alcohol, are consumed the most.

> „*Also China ist definitiv Rot-Rot-Rot […] und bis dato eher kräftige Weine, alkoholreiche Weine*“ (WE2, line 94-95).

However, the Chinese wine market is evolving and offers space for other wines as well. For instance, the consumption and relevance of natural and orange wine increases according to Lobner.

> „*China hat eine starke, wachsende Naturweinszene, wo Naturwein immer hipper wird, immer mehr an Interesse gewinnt und das war der Marktlagenbericht von meinem Importeur von gestern, der den ganzen Süden bereist hat jetzt und zurückgekommen ist [...] Also denke ich, dass Naturwein, orange wine, diese ganze Geschichte hat eine Zukunft in China*“ (Lobner, line 70-75).

The **chances for Austrian wine estates exporting their wine to (Mainland) China** were overall realistically but also positively assessed, including certain limitations. In general, Tischler-Zimmermann estimates the chances of Austrian wine estates in China good because it is a promising and large sales market. Despite the huge potential, there are a few restrictions and challenges. In his opinion, the success of international wineries depends on the resources, export experience and market knowledge of the wine producers. According to him, only wine estates who successfully export to various markets have a realistic chance in expanding to the Chinese market and choosing market diversification as a strategy. Especially in times of a crisis, it is important to have sales channels in diverse markets.

> *„Grundsätzlich bin ich immer positiv und sehe die Chancen gut, ja. Also es ist ein Hoffnungsmarkt und es ist vor allem natürlich ein riesiger Absatzmarkt. Also da gibt es wahnsinnig viel Potenzial. Aber mit den notwendigen Einschränkungen und mit den Herausforderungen, die dabei kommen ja“* (Tischler-Zimmermann, line 32-34).

> *„Dann geht es für mich darum, wie groß ist das Weingut, wieviele Ressourcen hat es, gibt es jemanden, der sich auf den Export spezialisiert hat oder passiert das alles aus einer Hand? Ist das Verständnis für den Markt da? und so weiter ja. […] Und dann gibt es welche, die sehr erfolgreich in viele verschiedene Märkte exportieren. Und eigentlich ist es nur für diese Winzer okay, sage ich jetzt mal, diesen nächsten Schritt zu gehen in einer Strategie der Marktdiversifikation und in einer Risikostreuung. Also, dass ich versuche, auf mehreren Märkten Absatzkanäle zu generieren. Dass ich eben in Zeiten der Krise, wie wir es jetzt haben, möglichst viele Kanäle zur Verfügung habe, wo ich meine Weine unterbringe“* (Tischler-Zimmermann, line 111-121).

Generally, Lobner thinks that it is a difficult market and Austrian vintners' expectations should not be too high. She believes that the Chinese market is only for people with a strong stamina and the willingness to try it out.

> *„Genau, also ich denke, dass es schwierig ist, generell. Man darf sich keine goldenen „handshakes“ erwarten, außer man trifft einmal jemanden, der wirklich sagt, ich will deinen Wein in großem Umfang, aber ich glaube, der österreichische Winzer muss sich damit abfinden, oder anfreunden, dass China nur etwas für Leute ist mit einem starken Durchhaltevermögen und mit dem Willen das auch zu probieren“ (Lobner, line 159-163).*

The interviewee Thurner said that Austria produces only 1% of the world wine production of which three quarters are consumed in Austria. Half of the rest is sold in Germany. As a result, the capacity for exporting to other countries, such as China, is limited. Realistically, only a small quantity of wine is exported to China and Austrian wine will therefore not become very popular in China. Even though the chances are not good in the mass market (e.g., supermarkets), Austrian wine can still be positioned in a specialized market.

> *„[…] wir produzieren nur 1% der Weltproduktion, davon trinken wir drei Viertel selber. Und von dem Rest, von diesen 0,25% geht die Hälfte nach Deutschland. Das heißt, wenn man ganz ehrlich ist, in der großen Makrorechnung gibt es eigentlich eh nicht viel österreichischen Wein, den wir nach China exportieren können. Und deswegen wird auch österreichischer Wein in China nicht wirklich mega populär werden, weil wir einfach die Menge dazu nicht haben und nicht in einem normalen Supermarkt drinnen stehen werden. […] Das heißt wir müssen dort, wenn wir dorthin wollen, schon einen ganz speziellen Spezialitätenmarkt finden"* (Thurner, line 18-24; line 35-36).

Nevertheless, the **importance of relationships and the right business partners**, also referred to as *guanxi*, is a major characteristic of the Chinese (wine) market. Many experts said that having a good partner (i.e., agent or merchant) or knowing the "right people" (i.e., the ones with valuable connections in the industry or in politics) is necessary to succeed in China.

> *„[…] der Markteintritt ist schwer, und dann dort zu bleiben und zu punkten braucht auch den richtigen Partner"* (Lobner, line 166-167).

> *„Also das ist auf jeden Fall kein Fehler, die richtigen Leute, die richtigen handshakes, [..] die richtige Flasche Whiskey. Das sind alles so key facts, sehr viele social aspects, die man nicht außer Acht lassen darf in China" (Lobner, line 177-180).*

Lobner mentioned that having the right partner is necessary to remain in the market. Moreover, it is beneficial to have connections to relevant people (e.g., including the bottle of whiskey they prefer) in the market and to consider certain social aspects.

> *„Also viele Winzer versuchen einen Importeur in China zu finden, was aber einfach wahnsinnig schwierig ist, weil es tausende, wenn nicht hunderttausende Menschen gibt, die das grundsätzlich behaupten zu sein. […] Also es gibt nur wenige, die wirklich spezialisiert sind auf den Wein, und die dann herauszufiltern und wirklich zu finden und und dann mit denen so eine erfolgreiche Geschäftsbeziehung aufzubauen, ist ein wahnsinnig schwieriger Prozess, ja"* (Tischler-Zimmermann, line 68-74).

Tischler-Zimmermann agreed and said that many people claim to be importers but only a few are specialized on wine. To find these ones and establish a successful business relationship with them is a difficult process.

To sum it up, Mainland China is considered a promising market if it is segmented geographically, and the right business partner is found. However, Austrian wineries need to bear in mind the necessary resources and stamina to enter the Chinese market.

### *6.2 Market Entry in China*

As mentioned in chapter 5, all wine estates have been in the Chinese market for at least ten years. Nevertheless, only one of them considers the market as one of their most important ones. China has been considered a promising market but until now the sales are still relatively low. Moreover, the previously mentioned challenge of finding a partner is one of the major obstacles of effectively integrating wine brands in the market. One interview partner (WE4) said that they have been in the Chinese market for 20 years, but their previous partner (import merchant) only paid little attention to them and consequently imported insignificant quantities. Hence, they hired an agent based in Singapore who established connections and potential business relationships in the Asian market for them, including Mainland China. Even though sales have been rising by working together with a new importer, the Chinese market does not play a major role yet.

> *„Also es war so, dass wir im Grunde schon seit 20 Jahren einen Importeur hatten. Und dieser Importeur war aber nicht mit uns in Kontakt. [..] Wir haben aber seit anderthalb Jahren einen Agenten in Singapur, der für uns alle asiatischen Länder betreut. Dafür haben wir uns entschieden, weil wir doch gemerkt haben, dass es sehr schwierig ist, in Asien Fuß zu fassen. Und der hat dann auch sehr schnell für uns China Mainland aufgetan. Wobei man sagen muss, das ist immer noch verschwindend gering im Vergleich zu anderen Ländern. Also es spielt keine große Rolle“ (WE4, line 36-40; line 44-45).*

The same insignificant role of the Chinese market (in terms of sales) applies for the export group Premium Estates of Austria managed by Lobner. She referred to “all that glitters is not gold" and meant that in the early development of the Chinese wine market, Austrian vintners had high expectations which have not yet materialized. Nonetheless, they have not given up and are content with the positioning of their wines.

> *„[...] es ist nicht alles Gold was glänzt, und China ist für uns nie richtig aufgegangen bis jetzt. Was man sich erhofft hat, vielleicht früher, passiert nur ganz wenigen österreichischen Winzern. […] Aber wir haben nie aufgehört, und ich glaube noch immer fest daran. Und ich bin sehr zufrieden mit der Positionierung mit unserem Wein, also das auf jeden Fall"* (Lobner, line 32-42).

One common way of establishing business relations in China is to attend wine fares, for instance the VieVinum in Vienna, the ProWine or the FHC Shanghai (all have been mentioned by the experts). WE2 explained that after some time they found their current partner at the FHC Shanghai. The business relationship has existed for five years and sales have continuously been rising (except for small losses in 2020). WE2 mentioned that the fare FHC provided a good platform for meeting potential partners and establishing initial business deals.

> *„Seit gut zehn Jahren ja. Also das war anfangs, also wir haben unsere Bemühungen gestartet mit Messeteilnahmen über die Wirtschaftskammer damals ausgerichtet. Die FHC Shanghai ist ein Klassiker bzw. auch Messen in Hongkong z.B. die wir, an denen wir teilgenommen haben und langsam haben sich dann eben Kontakte ergeben. [...] Und irgendwann hat man mal den Richtigen kennengelernt und mit unserem jetzigen Partner sind wir seit fünf Jahren aktiv im Geschäft circa ja. Und es läuft sukzessive, also steigend eigentlich, sehr kontinuierlich steigend mit einem ja kleinen Einbußen Einbruch letztes Jahr. Aber das hat sich mittlerweile wieder, würde ich sagen, normalisiert ja" (WE2, line 41-50).*

The provided statements demonstrated that the market entry in China is relatively difficult and this promising market has not fulfilled the high expectations for most vintners yet. Despite the low sales volume, the experts have not given up on the Chinese market.

### *6.3 Export Mode Choice*

As explained in chapter 4, various modes of export exist. Since no literature dealing with the form of export chosen by Austrian wine estates exporting to China was found, this research had the objective to provide first results. Therefore, the experts were asked about the export modes (direct and indirect) applied in the Chinese market. Direct export can be either in the form of directly selling wine to buyers or by using export intermediaries (import agents and import merchants). Indirect export means using export agents and merchants based in Austria. Tendencies towards direct export in terms of using importers were observed in the interviews. In fact, all interviewed wine estates, and the export manager of PEOA, Lobner, said that they work together with importers. Since all the importers buy the wine from them and then resell it in China, they can be considered import merchants. Even though, WE4 mentioned an agent based in Singapore who works the Asian market for them, in the Chinese market they collaborate with an import merchant.

In the interview, the experts were asked who handles which activities. All of them said that their importers handle the activities from the moment the order is picked up. For instance, Lobner collaborates with an importer who takes care of everything as soon as the wine is shipped, including importation, promotion, and sale. Further, the import merchant pays in advance, and thus takes title to the goods.

> *„Aber er übernimmt eigentlich von der Ausfuhr, also wir verkaufen unsere Weine ex fuhr, das heißt sobald die Palette abgeholt ist, er muss 100% Vorauskasse leisten, das ist auch etwas was ich jedem empfehle mit einem Land wie China. [...] Und ab dem Zeitpunkt wo abgeholt ist, kümmert er sich um die Einfuhr im Land, […] und dann auch um die Promotion und um den Verkauf“* (Lobner, line 221-227).

The same applies for WE4 who sells their wine *ex cellar*. This means that the import merchant legally takes over all risks and costs associated with the transportation of the wine.

*„Also wir sind quasi komplett 100 Prozent ex cellar. Das heißt, wir kümmern uns nur um wirklich die Verpackung, im Sinne von wir packen alles auf die Palette, was er bestellt […] Also auch rein rechtlich ist die Ware, wenn sie vom Weingut weggeht, nicht mehr in unseren Händen“ (WE4, line 71-75).*

WE2 has a similar deal with the importer who mostly takes care of the activities as soon as the wine is picked up at the wine estate. However, WE2 must pay CIF (costs, insurance, freight) most of the times.

*„Der Importeur übernimmt de facto ab Verladung der Ware im Prinzip, […] der Importeur organisiert den Transport, die Ausfuhr, et cetera, also es wird alles von ihm geregelt. Dann noch Etikettierung et cetera. Einfuhr, Verzollung bis zur Distribution. Dann eben Import und Verkauf auch teilweise. […] Oder wir haben dann noch da Lieferbedingungen […], also CIF, ich weiß nicht ob Ihnen die Importeurenklauseln etwas sagen, aber die Kosten, Transport, Versicherung geht dann auf uns meistens“ (WE2, line 56-60; line 63-65).*

Even though a tendency towards direct export is observed, directly selling to buyers in China was mostly considered an unrealistic alternative. Most of the experts thought that would not work due to limited capacities as well as complex distribution channels. For instance, WE2 thinks that their wine estate is too small and that it is important to be on site and collaborate with local partners.

*„Also Direktabnehmer in China, also dafür sind wir sicher ein zu kleiner Betrieb. Und ich denke, also es ist extrem schwierig, wenn man nicht vor Ort ist, mit lokalen Partnern zusammenarbeitet, jetzt alle Formalitäten zollrechtliche und anders rechtliche zu erfüllen. Also ich denke direkt zu liefern ist meines Erachtens absolut fast unmöglich“ (WE2, line 73-76).*

Nonetheless, Lobner claimed that she sometimes gets requests from supermarkets who are interested in adding one of her wines to their production range. Even though none of these requests turned into a business deal, she would still consider working without an importer in this case. The fine wine business of her importer is large enough, though she would only take deals in accordance with him.

> *„Was ich schon mache ist, wenn große Anfragen kommen, aus China, die auch immer wieder mal kommen, Supermarktketten oder, und ich habe einen Wein, den ich unterbringen wollen würde, dann mache ich das auch mal ohne Importeur, weil ich weiß, dass er das nicht stemmen kann. Und das sage ich ihm auch, und dann, ist aber auch noch nie was daraus geworden. Aber China ist so groß, dass ich mir denke, ich mache ihm sein fine wine business nicht kaputt, dass ich das auch ohne ihn machen kann“* (Lobner, line 258-263).

Another alternative export mode is having a **sales subsidiary** in the host market. Only one of the interviewees, WE2, mentioned that they have a small sales subsidiary which also serves as a storage room. They established it together with their importer and split the costs.

> *„Also wir haben einen kleinen Verkaufsraum, ein kleines Lager, wo unsere Weine dort gelagert werden, aber auch gleich verkauft werden“* (WE2, line 158-159).

In general, the wine estates did not choose importers over exporters because they preferred this mode but because only a few exporters exist. In fact, Lobner was the only expert who excluded the collaboration with an exporter based in Austria because she wants to have someone on site in China. Despite that, the limited availability of exporters causes more wine estates to embrace the possibility to work with Chinese importers. Interview partner WE3 mentioned that the opportunity to work with two import merchants arose after attending an exhibition. Since the collaboration with these works well and they have a limited capacity of wine, they did not consider changing their strategy such as hiring an exporter.

> *„[…] das hat sich dann so ergeben eben, also, ich mein, wir sind halt irgendwie auch von unserer Produktion her limitiert* [..] *dadurch hat es da jetzt auch nicht so ja Überlegungen gegeben, dass man das jetzt vielleicht intensiver betreibt“ (WE3, line 59-62).*

Due to advantages such as a sales force in China or advance payment, Lobner chose an importer. Even though she must pay him, the advantages outweigh the disadvantages and she considers it the best way to be present in the Chinese market.

> *„Aber der Importeur, wie ich vorhin schon gesagt habe, der nimmt einem halt schon wirklich viel ab und der ist auch im Markt, und zwar mit einer sales force, mit einem Büro, mit einer finanziellen Abwicklung, also das Geld habe ich vorab, ich denke mir das ist schon, natürlich zahlt man das auch irgendwie, aber ich würde sagen, das ist für mich der bessere Weg“* (Lobner, line 295-299).

Tischler-Zimmermann has observed that collaborating with exporters would be beneficial for Austrian wine estates but there are not enough of them in Austria. Thus, most of the wine estates work together with Chinese importers.

> *„„Also meines Wissens gibt es in Österreich nur eine Handvoll Exporteure, die jetzt China als echtes Augenmerk und echten Fokus haben, ja. Und die wiederum arbeiten nur mit einer Handvoll an Winzern zusammen. […] Und insofern sehe ich den Versuch, dass man mehr mit chinesischen Importeuren arbeitet. Und wahrscheinlich wäre es zielführender mehr mit Exporteuren, spezialisierten in Österreich zu arbeiten und dafür auf ein Stück seiner Marge zu verzichten“* (Tischler-Zimmermann, line 63-65; line 79-81).

Thurner pinpointed the necessity of reliable contact persons in Austria for Chinese buyers. For them it would be too elaborate to buy directly from Austrian wine estates and handle all the activities (e.g., transportation) themselves. Therefore, he highlights the importance of exporters, such as himself, who handle these activities and are in contact with them.

> *„Aber die Chinesen brauchen bei uns wahrscheinlich, so "reliable contact persons". Ich wickle gerade einen Container ab für Singapur, und da konsultiere ich auch in Österreich 10 Weingüter, und der würde nie auf die Idee kommen bei den Weingütern selbst zu kaufen, weil ihm das zu mühsam ist, weil er die Sprache nicht kennt […] Und die brauchen einfach diese, diese, sage ich mal, Vertrauensperson in Europa, die für sie praktisch die Abwicklung macht, auch Transportmäßig“* (Thurner, line 70-76).

Moreover, WE4 stated that they are also willing to collaborate with exporters. In fact, one exporter sometimes sells their wine to China, parallel to the importer. This emphasizes the use of various export modes simultaneously.

*„Ich weiß, dass es da Kontakt gibt immer noch zu einem Österreicher, der viel rüberbringt. Also das Parallel eben" (WE4, line 92-93).*

Nevertheless, the statement by Lobner below shows that the assignment to a certain mode of export is not always clear. "Premium Estates of Austria" is a group of wine estates whose object is to bundle their resources and to export their products worldwide. They hired her as an export manager (and CEO) to handle all activities involved. Thus, the group can be considered an export combination (cooperative organization, indirect export) which is defined as an association of competitive firms who aim at selling their products abroad (Albaum et al., 2016). Another fitting alternative is a separate export department which is a fully integrated organization handling export activity (direct export; Albaum et al., 2016). Further, the group uses an importer in China. Consequently, more than one specific export mode is applied.

*„Premium Estates of Austria ist eine Gruppe von früher fünf oder sechs Betrieben eigentlich, die sich 2004 zusammengetan haben, um gemeinsam Exportaktivitäten global, also weltweit, zu starten. Und sie wollten einfach eine Person, die die Reiseaktivitäten übernimmt und die die Kontakte […] der kommerzielle Zweck ist ganz klar, wir bündeln unsere, unsere Energien, unsere finanziellen Ressourcen"* (Lobner, line 3-15).

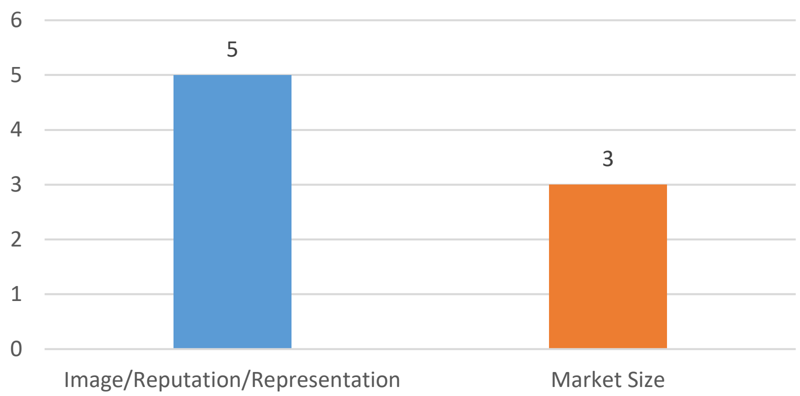
To conclude, the discussion of the export mode choice in the interviews has mainly shown that directly exporting in the form of import merchants is most commonly. This is mainly due to the small number of exporters available. Instead of clearly excluding the use of exporters, the interviewees mostly had the opportunity of a business deal with an importer and took it. Still, importers have numerous advantages due to handling most export activities, taking over the risks and costs of transportation and having knowledge of the local markets as well as relevant contacts. One wine estate, WE2, said that they have a sales subsidiary together with their import merchant. An export mode which was not named and even rejected is selling wine to direct purchasers in Mainland China (without using any intermediaries).

### *6.4 Motives for Exporting Austrian Wine to China*

Another object of this research is to find out why the Chinese market is an attractive export destination for Austrian wine estates and which opportunities they seek there.

The interviewed experts have mainly named two motives. In figure 10, the frequency of these two motives in the interviews is illustrated.

**Figure 10. Motives and Opportunities for Exporting Austrian Wine to China.**




First, the **image and reputation** the wine estates build by being present in international markets is a prominent motive for exporting to China. With a frequency of five out of seven, it was the most cited motive. China's relevance in the global wine market is increasing (due to the rising wine consumption) and is considered a promising market. Therefore, Austrian wine estates seek to position their wines in China's metropolises and top-class restaurants in case the demand for Austrian wine increases.

> *„Naja, das ist ein großer Markt, mit auch sehr viel Hotels und Gastronomie, das ist sicherlich interessant. Die Metropolen sind teilweise für unsere Arbeit auch sehr empfänglich, weil die Metropolen top Restaurants haben, wo diese Spezialitäten von verschiedensten Teilen der Welt einfach gesucht werden und die Weinkarten voll sind damit. Und das wir über kurz oder lang mit Sicherheit auch in China passieren, es wird wohl auch schon sein, aber vielleicht noch nicht so weit, dass wir auch ein Teil davon sein können. Ich möchte ganz gern in der ersten Reihe stehen, wenn man dort meint, auch der österreichische Wein oder auch der Wiener Wein möge doch auf die Karten vertreten sein, damit wir dann schon mit der Hand aufzeigen können und nicht erst dort beginnen Kontakte zu knüpfen“* (WE1, line 86-94).

Thurner detected a market for upscale wines. According to him, there is always room for specific wines with a special origin and character in the Chinese top segment.

Therefore, Austrian wines can be positioned in such niche markets. Tischler-Zimmermann agreed that it is relevant for renowned Austrian wine producers to present themselves to Chinese wine experts. This is a first step to succeed in the market, representing the wine to Chinese end consumers is realistically too early.

> *„Ich glaube aber schon, dass es für Spezialitäten und für gehobene Weine generell einen Markt geben wird. Den habe ich ja auch selbst erfahren, und selbst mitbekommen, dass es dort einfach im Topsegment immer Lücken und Platz gibt für besondere Weine mit besonderer Herkunft sowie mit besonderem Charakter. Und da gehört Österreich sicher dazu“* (Thurner, line 90-94).

> *„Aber allein in der Auseinandersetzung mit der globalen Weinwelt ist es schon interessant für namhafte Winzer dort präsent zu sein und sich dem chinesischen Fachpublikum eigentlich einmal vorrangig, weil bis zum Endkonsumenten ist es leider eh ein wahnsinnig weiter Weg, zu präsentieren und dort einmal zu reüssieren“* (Tischler-Zimmermann, line 161-164).

The wine estates WE3 and WE4 aim to be present in the Chinese wine market as well to gain reputation. To them it is important to export their wine to China since it is a large economy and other Austrian wines are already represented there.

> *„Ich glaube, dass es grundsätzlich für ein Weingut […] wichtig ist, grad wenn man, [..] sich internationale Reputation aufbaut, dass man schaut, dass man in die wichtigsten Volkswirtschaften der Welt auch vertreten ist. Und da gehört ja China auch dazu, und ich glaube, das ist einfach für die Reputation vom Weingut auch sehr sehr wichtig“* (WE3, line 77-80).

> *„Es gibt eben schon viele Österreicher, die dort am Markt sind. Und da wir eben nur sehr kleine Mengen hatten, war es uns wichtig, dass wir eben auch definitiv präsent sind am Markt“* (WE4, line 115-117).

Thurner stated the motives of selling wine and being present in international markets. However, he thinks that only renown wine estates should export their wine to China because Chinese customers are brand-oriented and demand well known wines they can rely on.

*„Erstens, will jeder Winzer einfach verkaufen. Das ist das einfachste Motiv. Und zweitens, wollen sie einfach auf den internationalen Bühnen präsent sein. Das ist natürlich die das Feedback für die Arbeit, die sie täglich in den Weingärten machen. Ich glaube aber trotzdem, dass man als unbekannter Winzer nicht nach China gehen sollte, weil Chinesen sind sehr brand-oriented, die wollen einfach Marken, die wollen etwas das renommiert ist, wo sie sich darauf verlassen können“* (Thurner, line 130-135).

Second, the **size and potential (in terms of sales volume) of the Chinese market**. Overall, three out of seven interviewees have named the market size as a motive for exporting wine to China. The statement by WE2 below demonstrates that China is a growing (wine) market which is unsaturated compared to the European or the American market. The interview partner also explained that some of the leading wine producing countries France, Italy and Spain have successfully been working in the market for some years. Due to the stagnating or even declining wine consumption in Europe, it is believed a promising market for European wine producers.

*„Naja, es ist ein, ein Riesenland, natürlich ein Wachstumsmarkt. Einer der sicher noch sehr ungesättigt ist im Vergleich zu vielen europäischen Ländern und dem europäischen Markt im Allgemeinen. Oder dem amerikanischen Markt, der wo man ja fast überall gesättigte Märkte hat, wo es ja nur mehr darum geht, den einen oder anderen aus dem Regal zu drängen oder man halt ja mehr oder weniger so vorgehen muss. In China ist eigentlich unbearbeitetes Land, grob gesagt strömt ja halb Europa, die großen drei Länder Frankreich, Italien, Spanien, also versuchen ja schon seit vielen Jahren dort den Weinmarkt aufzubauen und haben es ja auch schon ganz gut geschafft. Und ich denke, dass es für Europa, auch, wo nicht nur der Markt gesättigt ist, sondern auch, wo der Konsum stagniert oder teilweise sogar rückläufig ist in einigen Ländern Asien, für viele Produzenten in Europa, also der Hoffnungsmarkt ist“* (WE2, line 114-123).

Tischler-Zimmermann identified the size of the market as well as the potentially high sales volume and relatively good average prices as opportunities for Austrian wine estates. WE4 added the trend towards the consumption of white wine to the list of opportunities. In general, they observed an evolving wine culture in China that increases the market potential for them.

> *„Also, der Anreiz ist nach wie vor die Größe des Marktes, und dass man Volumen absetzen kann.* […] *wir sehen auch eigentlich relativ gute Durchschnittspreise“* (Tischler-Zimmermann, line 153-154).

> *„[…] wir haben eigentlich immer gesehen, dass der Markt großes Potenzial hat, weil die eben mehr, immer mehr zu den Weißwein übergehen. Also die, die Weinkultur wird einfach, die baut sich besser aus, sagen wir es mal so. Das sehen wir, diesen Trend schon seit mehreren Jahren“* (WE4, line 112-115).

To sum it up, Austrian wineries export their wine to China because of the market size and potential in China. They perceive relatively good average prices and sales opportunities in the long term. The most named motive was the improved image and reputation they gain by representing their wine brand in China. Even though the expected “boom” of high sales volumes has not happened yet, they want to be present when the demand for Austrian wine rises. Nevertheless, prominent wine brands from Austria have more realistic chances in succeeding there due to the brand orientation by Chinese wine consumers. Moreover, the culture of drinking wine is still evolving and thus the target group initially consist of wine experts and restaurants rather than end consumers.

### *6.5 Barriers and Challenges in China*

Entering a foreign market is always connected with certain barriers and challenges one must face. The expert interviews addressed this issue to reveal the obstacles when exporting Austrian wine to China. Many challenges or barriers were mentioned such as **price and brand sensitivity** of the market (WE1).

> *„Naja, es ist sehr preissensibel, das ist das eine, und zum anderen ist es sehr markensensibel“* (WE1, line 75-76).

Additionally, Thurner shed light on the **limited capacity** of Austrian wine. According to him, it is not realistic for most Austrian wine estates to export high quantities. Consequently, only few people will know Austrian wine and they will not buy large amounts of it.

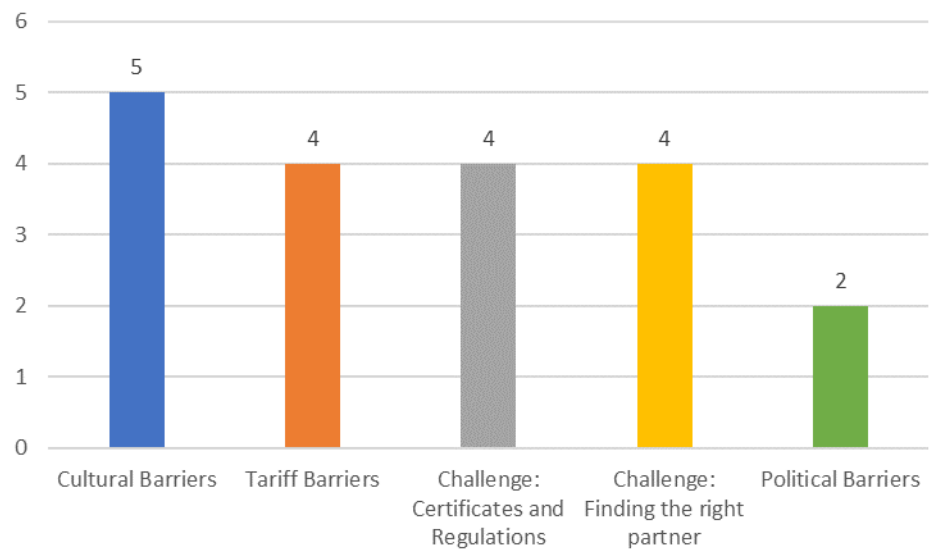
> *„[…] für die Massenware wird es uns vielleicht mal gelingen, einen oder zwei Container hinüberzuliefern. Aber langfristig wird es dort niemand kaufen, weil man einfach österreichischen Wein nicht kennt und nicht kennen wird, weil wir dazu einfach zu wenig haben" (Thurner, line 85-88).*

The interviewee WE4 listed the **low consumption of white wine** as their biggest challenge. The preference for red wine requires an increased processing of the market.

> *„Also ich denke, es ist schon sehr herausfordernd und eben auch eine Herausforderung, dass Weißwein jetzt noch nicht so fortgeschritten ist wie der Rotwein. Ich denke, dass ist die größte Herausforderung für uns, dass da eben extrem viel Marktarbeit geleistet werden muss"* (WE4, line 125-128).

However, the five most frequently mentioned barriers and challenges are shown in figure 11. One of the most frequently cited challenge was **finding a decent business partner** (57.1%, four out of seven experts).

**Figure 11. Barriers and Challenges in China.**




An interviewee, Tischler-Zimmermann, stressed the challenges about how to work together with a business partner, expectations by them, as well as finding the person who oversees decision-making. Thus, he has observed that the most difficult task is to find suitable business partners.

> *„Aber auch die Geschäftsgebarung, wie arbeitet man denn mit einem chinesischen Geschäftspartner zusammen, ja, wie, welche Erwartungshaltung hat der? Was erwartet er sich von einem österreichischen Winzer, damit das überhaupt zu einem Geschäft kommt? Und, was mir dabei immer wieder aufgefallen ist, und was uns nach wie vor vor große Rätsel stellt, bei dieser schieren Menge an Personen die richtige Person herauszufiltern, die tatsächlich die Entscheidung trifft“* (Tischler-Zimmermann, line 132-136).

One wine estate (WE4) argued that they were not content with their first importer and wanted to switch to a new one. However, WE4 emphasized the challenge of getting in touch with potential business partners as well.

> *„Und tendenziell kann man sagen, dass es sehr schwierig ist auch mit den Importeuren in Kontakt zu treten. Wir haben nämlich schon viele Jahre versucht zu wechseln und das ist uns […] extrem schwergefallen“* (WE4, line 64-67).

The unacceptance of certain certificates creates **regulative or bureaucratic challenges and barriers**. Overall, four out of seven experts named the challenge concerning certain regulations, certificates, or export papers. For instance, Thurner presented the problem of **organic certificates**. There is a trend towards organic and sustainably produced wines in Austria. However, the Chinese usually do not accept certificates of organic wines and thus create a trade barrier which will play a significant role in the future.

> *„[…] dieses Problem der Bio-Zertifizierung, ich glaube das ist wirklich ein ganz großes Problem, weil in Europa mehrere Weingüter biologisch werden, und die Chinesen aber sagen ‘we do not accept your organic certificate‘. Also das merkt man schon, dass das, dass das ein großes Handelsproblem werden kann. Das ist vielleicht eines der größten für die Zukunft, weil wir in Österreich einfach so stark auf Bio und auf natürliche Weine setzen. Und die Anerkennung dessen in China wäre schon wichtig und da sind wir noch weit davon weg“* (Thurner, line 196-201).

Further, 71.4% of the experts identified **cultural barriers** including different norms, behavior patterns, language barriers as well as different conceptions of (the consumption of) wine. In this context, Tischler-Zimmermann alluded to different styles in Western and Chinese business cultures. He stated that Austrian vintners are used to establishing business deals by communicating with potential partners in their usual manner. However, these Western manners do not function in China (as they do in Great Britain for instance).

> *„Das, das Interessante ist, oder das ist zumindest meine Beobachtung, dass die Winzer es gewohnt sind, dass das in anderen Ländern sehr gut funktioniert, weil man die sprachlichen und kulturellen Barrieren nicht hat, ja. Es ist ein Leichtes quasi nach Großbritannien zu gehen und dort mit den Menschen zu sprechen und herauszufinden, okay, ist das ein seriöser Geschäftspartner? Kann ich dem vertrauen? Und man tauscht sich quasi in westlicher Manier aus, ja. Aber das funktioniert halt mit China leider nicht so" (Tischler-Zimmermann, line 74-79).*

Four experts referred to the **punitive tariffs** on Australian wine. In general, they argued that **Chinese politics** play a major role. On the one hand, Tischler-Zimmermann observed an increasing protectionism due to the rising Chinese wine production.

> *„Und dann hat sich schon in meiner Wahrnehmung im letzten Jahr, aber auch schon davor, natürlich ein stärkerer Protektionismus des Landes herauskristallisiert. Also, dass einfach das Land immer mehr versucht seine eigene Produktion natürlich zu stärken. Der chinesische Weinbau ist im Steigen, und ist ein definitiv nennenswerter Faktor. Und die wollen natürlich, dass ihre eigenen Produkte getrunken werden. Und das ist auch genau der Grund, warum Australien jetzt in der Misere ist, in der es ist, dass unter einem Vorwand der chinesischen Regierung extrem hohe Zölle auf australische Produkte eingehoben werden und somit der, der Export von australischen Wein um 95% gekappt wurde, ja. […] Und dieser Protektionismus greift ja auch in anderen Branchen um sich und das ist definitiv eine der größten und schwierigsten Handelsbarrieren, mit der man jetzt, jetzt und in naher Zukunft verstärkt rechnen muss*" (Tischler-Zimmermann, line 138-149).

On the other hand, some experts named Australia as an example for the tariff barriers which can occur. Thurner said that there is a dependency on macroeconomic and macropolitical circumstances. Overall, the **Chinese government** has a great impact and various instruments (e.g., punitive tariffs) at its disposal to control the import of foreign wine in China. In addition to potential punitive tariffs, WE4 also talked about the high taxes on alcohol in general.

> *„Also die Politik spielt dort schon eine ganz übermächtige Rolle. Und auf der anderen Seite gibt es dann auch politische Gegenwehr im Sinne von, dass zum Beispiel, wie wenn die Politik mit Australien nicht passt, die Chinesen einfach sagen, okay, wir erheben sofort auf australischen Wein 30% Zoll. […] Man ist schon auch sehr viel von diesen makroökonom- oder makropolitischen Umständen ein bisschen abhängig“* (Thurner, line 121-125).

> *„Ganz herausfordernd sind natürlich auch die Strafzölle. [...] generell sind halt die Steuern auf Alkohol auch relativ hoch“* (WE4, line 121-125).

In general, political barriers created by the Chines government were mentioned by two experts (28.6%). Whereas four out of seven experts referred to tariff barriers. However, political and tariff barriers often interfere since tariffs are raised by the local government.

Nevertheless, some experts argued that market entry into China is less complicated than into other markets. Lobner indicated that there are stricter requirements in other markets than in China. For example, they do not have to use specific labels. Generally, she does not recognize many burdens.

> *„[…] wir schicken nach China zum Beispiel ohne Sonderetiketten bis jetzt, also es ist eigentlich, es ist von dem her eine Erleichterung, in manchen Märkten habe ich ganz arge Auflagen, in vielen Märkten eigentlich, also das ist auch kein Problem, ich sehe keine großartigen Problematiken“* (Lobner, line 202-205).

As WE2 pointed out, the easier handling might be due to importers who often take over the tasks in the Chinese market. This minimizes potential cultural or regulative barriers. If the importer has knowledge on the market and the language and handles everything on site, wineries do not have to deal with these problems. Further, the potential problem of payment (that WE2 addressed) can be solved by requesting importers to pay in advance.

> *„Ja, Hindernisse gibt es nicht in dem Sinn sehr große. Ich meine, wenn man einen guten Importpartner hat, einen guten Importeur hat, der die formalen Bewandtnisse alle erledigen kann. […] Wir sind als exportorientierter Betrieb also relativ fit und sind da eigentlich, also bei uns ist da keine große Veränderung gewesen im im Prozedere*

> *zu anderen Exportmärkten […] Und ja, große Frage wie immer bei Geschäften, die man vielleicht außerhalb der EU oder in weiterer Distanz führt, ist, ist das Thema Bezahlung, ist natürlich immer ein großes Thema. Wir handhaben das immer so, dass die Zahlung vorab passiert, bevor der Wein verschickt wird“* (WE2, line 127-127).

In summary, cultural, regulatory (mostly certificate issues), tariff and political barriers were identified as the most common ones. Moreover, finding suitable business partners is considered necessary but creates one of the largest obstacles in the Chinese market. Further, the relatively low wine production limits export possibilities and a widespread awareness of Austrian wine in China.

### *6.6 Uppsala Internationalization Process Model*

A further goal of this research was to test the application of the Uppsala internationalization process model by Austrian wine estates exporting to China. For this purpose, the experts were asked about their market knowledge as well as their willingness to apply a more resource intensive strategy and increase their market commitment. Except for one expert (WE2), all said that they cannot imagine another entry strategy besides export. WE2 argued that the Chinese market is quite manifold, and every province has its own peculiarities. Consequently, he would not say that he has a great insight (or knowledge) of the market.

> *„Das ist ein sehr ein sehr dynamischer Markt, der sich sehr stark entwickelt. Ich möchte nicht sagen, dass ich da einen großen Einblick habe mit ein, zwei in normalen Jahren, zwei, drei Reisen im Jahr nach China, wo man schon verschiedene Städte oder Landteile besucht hat. Das Land ist dermaßen riesig und auch wenn man von China et cetera spricht, jeder Landesteil, jede Provinz hat ihre Eigenheiten“ (WE2, line 141-145).*

And yet, they decided to open a small sales and storage room after having been in the Chinese market for eight years. From this home base, their wines are then distributed within the Zhejiang province, to Shanghai and South-Eastern China.

> *„Also wir haben einen kleinen Verkaufsraum, ein kleines Lager, wo unsere Weine dort gelagert werden, aber auch gleich verkauft werden. […] Und von dort werden dann*

*die Weine in diverse, also hauptsächlich in der Zhejiang Provinz, Shanghai, im Südosten Chinas vertrieben" (WE2, line 158-164).*

However, WE2 is the only wine estate that works the Chinese market more intensively on site. WE4, for instance, claimed that they would never consider choosing another strategy besides export. Due to having a Singapore-based agent who represents them in the Asian market, including Mainland China, they do not think that launching a representative office or a sales subsidiary is necessary.

> *„Nein, das werden wir sicherlich niemals tun, weil wir ja eben auch jetzt gerade mit dem Agenten angefangen haben in Singapur und der eigentlich schon, ja, ich sag mal Repräsentanz genug ist. Also der, jetzt geht es natürlich nicht, aber er fliegt dann auch wieder überall für uns herum und repräsentiert uns. Dadurch, dass wir den Agenten haben, wird das keine Rolle spielen. Also das werden wir unter keinen Umständen machen. Nein"* (WE4, line 147-151).

Several arguments for exporting rather than other entry strategies were named by the experts. Thurner said that an Austrian winery, apart from the two or three largest ones, could not afford to have, for instance, a joint venture or a representative office. It is too cost intensive. Further, he thinks that nobody demands Austrian wine and thus, it would be a difficult process.

> *„Also ich glaube ein Joint Venture, könnte sich ein österreichisches Weingut, abgesehen von den zwei, drei Großen, wahrscheinlich niemals leisten. Und auch dann würde es wahrscheinlich schwer werden, weil wir einfach, wie gesagt, dort Weine verkaufen, die keiner braucht. Das heißt ich würde das niemanden wirklich empfehlen. Ein Repräsentanzbüro vor Ort ist auch kostenintensiv"* (Thurner, line 151-154).

According to Lobner, there are great costs in terms of investment and manpower to set up a location there, including the tax hurdles and the language barrier. Only an expert who works together with locals with the necessary knowhow and who produces millions of bottles of wine can effort to apply a more resource intensive strategy (e.g., set up a subsidiary or a representative office). Tischler-Zimmermann agreed that resource intensive entry strategies can realistically be applied by wineries with large production volumes. Moreover, they need to identify China as a focus market for themselves. He thinks that no matter what size an Austrian wine estate has, it cannot serve many other markets in addition because the Chinese market simply uses too many resources.

> *„Ja, wenn man ein fitter Experte ist […] Aber wenn man sich nur anschaut, was es an Investment und manpower kostet, dort einen Standort aufzubauen, die ganzen steuerlichen Hürden, die sprachliche Barriere, würde ich mir nicht zutrauen, also würde ich auch nicht empfehlen, außer man hat wirklich locals, die sich auskennen, denen man vertrauen kann, dann ja. Aber, und dann muss man auch eine gewisse Größe haben. Also würde ich jetzt in unserem Fall nicht andenken, in keinster Weise. Wenn ich viele Millionen Flaschen produziere, dann kann ich mir das überlegen […] nicht, wenn man ein kleiner oder mittlerer Weinbaubetrieb aus Österreich ist"* (Lobner, line 305-316).

> *„Ja ich glaube das geht tatsächlich nur, wenn man von großen Volumen spricht. Also wenn, wenn dieses Weingut China als absoluten Fokusmarkt für sich identifiziert hat, weil da fließen dann ja wirklich, da fließt sehr viel Energie in so ein Thema dann hinein. […] dann kann kein Unternehmen, ich glaube egal welcher Größe, noch sehr viele andere Märkte daneben bedienen, dafür ist, frisst dieser Markt einfach zu viele Ressourcen" (Tischler-Zimmermann, line 170-181).*

The internationalization process model is limited due to the rather low quantity of Austrian wine available as well as the firm sizes and restricted (financial) resources. According to Lobner and Tischler-Zimmermann, the business scale of the Austrian wine industry is too small-structured for working with strategies except export in the Chinese market. To conclude, out of all interviewed experts, only one was not critical about applying a more resource intensive strategy in China.

### *6.7 Future Developments*

In the context of the interviews, the experts commented on future developments and trends of the wine industry in Austria and China. Due to the current Covid-19 pandemic, some experts estimated the influence it will have (and has had so far) on the wine market.

> *„Es war ja so, dass in China Mainland selbst sie sehr schnell raus waren aus der Krise. Und der Weinverkauf auch sehr stark war. Also ob das jetzt online war oder ob*

*das tatsächlich auch bei allen möglichen Retailern war, also im kompletten Off-Trade Bereich, war der Weinkonsum sehr sehr hoch und sehr viel Wein auch gekauft" (WE4, line 154-157).*

WE4 has observed that the sales of wine have increased in China. Since the Chinese had got a grip on the crisis relatively fast, the wine consumption and purchasing were high in the off-trade distribution. Thurner (statement below) agreed that the People's Republic of China has shown greater strength in fighting the crisis. In general, he does not think that the pandemic will significantly influence the wine market in the long term.

*„Covid ist glaube ich in China schon ziemlich überstanden, ich glaube die sind da schon einen Schritt weiter und sind das schon durch. […] da sind sie vielleicht ein bisschen schneller und wollen auch die Stärke zeigen, die sie haben. Ich glaube auch nicht, dass Covid langfristig den Weinmarkt so beeinträchtigen wird"* (Thurner, line 174-179).

However, Tischler-Zimmermann emphasized the different effects Covid-19 has in the markets in which Austrian wine is present. He said that generally it was a zero-sum game which proved that Austrian wine is a demanded and well-functioning product. There are markets with established trade structures (e.g., Canada or Sweden) which were not severely affected. However, the opposite is valid for the Asian market where he suspects a decline of exports. The trade patterns in these markets might need to be restructured.

*„[…] grundsätzlich war es ein, ein Nullsummenspiel, das heißt österreichischer Wein ist ein Produkt, das erwünscht ist und das funktioniert und das einen Markt hat […] Aber diese Pandemie war definitiv ein schwerer Dämpfer für jene Märkte, in denen die Handelsstrukturen noch nicht so etabliert sind und wo jetzt all das eigentlich wieder nachgeholt werden muss"* (Tischler-Zimmermann, line 194-215).

Additionally, Thurner named the current political development including efforts towards 'one united china' as a potentially influencing factor. Moreover, he said that tourism will play a major role and significantly impact the wine consumption. The more Chinese tourists visit Austria, the more they will demand Austrian products (such as wine) to remember their vacation.

> *„[…] ich glaube wie gesagt, die große Frage ist die politische Entwicklung und da gibt es auch zurzeit wieder so große Rufe von der "one united china", wir sind, wir müssen uns gegen die Welt aufstellen, wir müssen uns stärker machen und so. Also die politische Kraft der Chinesen darf man da ein bisschen nicht unterschätzen. Es wird aber auch wahrscheinlich der Tourismus eine große Rolle spielen. Ich glaube, dass der Tourismus auch den Weinkonsum immens antreibt […] Und ich glaube das wird auch mit dem chinesischen Markt so werden. Je mehr Leute nach Österreich kommen, desto mehr wird man auch dann in China vielleicht die Produkte wieder verlangen, weil man sich halt an den Urlaub zurückerinnern will“ (Thurner, line 181-191).*

> *“[…] ich glaube auch dort, dass dort die, das Interesse vor allem an der europäischen Kultur, und da gehört der Wein halt einfach dazu, kulinarisch gesehen, dass das schon sehr groß und sehr ausgeprägt ist. Es reicht nicht ein deutsches Auto zu kaufen und eine Schweizer Uhr, sondern man muss am Ende des Tages schon einen Champagner aus Frankreich, und einen süßlichen Weißwein aus Deutschland und vielleicht einen kräftigen Rotwein aus Italien und vielleicht irgendwann dann auch einmal einen würzigen Weißwein aus Österreich in seinen Weinkeller haben. […] also man darf den Markt nicht abschreiben, man muss ihm nur mehr Zeit geben“* (WE1, line 139-157).

The statement above shows that WE1 believes that there is an impact by and an interest in the European culture (including wine). In the opinion of WE1, it will not be enough to own a German car, French champagne, a Swiss watch, or an Italian red wine. Eventually the demand for a spicy Austrian white wine will exist. Therefore, one cannot write off the market, it just needs more time.

To sum up, observations on the Covid-19 crisis indicated that China seems to have recovered and the purchasing and consumption of wine did not stop in the off-trade area. However, the effects of the crisis need to be differentiated. Furthermore, politics (the Chinese government), increased tourism, and an evolving wine culture (in China) might affect the future development of Austrian wine exports.

# 7 Discussion

The objective of this chapter is to discuss the results presented in chapter 6 and to find an answer to the previously stated research questions. The first research question (RQ1) refers to the mode of export selected by Austrian wineries. The selection is between direct and indirect modes. Previous research (chapter 4) suggested that the choice depends on characteristics of home and host country as well as firm and product characteristics (Peng & Ilinitch, 1998; Hienarth & Ruhfdorfer, 2010; Abel-Koch, 2011).

**RQ1: "*Which mode of export do Austrian wine estates choose when exporting to China?*"**

The expert interviews yielded that most wine estates choose a **direct export mode**. The current state of knowledge divides direct export into directly selling goods to a foreign buyer or exporting via importers. This research indicates that importers (based in China) are the most relevant form of exporting wine to China. Whereas directly selling wine to Chinese buyers was not perceived as a realistic option by the interviewed experts. The interviews have shown that direct exporting was preferred over indirect exporting. However, some experts claimed that it would be beneficial to work with (Austrian-based) exporters due to the same business manners (including language), their reliability and contacts to Chinese buyers or importers. Despite that, most wineries collaborate with importers because of their greater availability, connections, and knowledge of the market. Importers usually have established distribution channels, handle most export activities, and are on site in the dynamic market. The description of duties and responsibilities of the importers show that these are mostly import merchants.

Compared to a previous research by Hienarth and Ruhfdorfer (2010), Austrian wine estates prefer to collaborate with export intermediaries (indirect export) when their resources are limited, and they produce high-quality wine. Austria is considered a saturated market with many competitors. The Chinese market is culturally distant and highly competitive. According to the researchers, this would favor the choice of an indirect export mode. However, this study came to a different conclusion. The interviewed wineries produce high-quality wine, and they are rather limited in their resources. Despite this, they export via importers (direct export mode). According to Fernandez-Olmos and Diez-Vial (2010), larger and internationally experienced wineries tend to export directly. The wineries interviewed in this study can be considered internationally experienced since they have numerous export countries and have been exporting for many years, in China for at least 10 years. In the context of the Austrian wine industry, the interviewed wine estates are considered rather large (section 5.3.1). Therefore, it can be confirmed that larger wineries tend to export directly.

Nevertheless, the study by Hienarth and Ruhfdorfer (2010) was the only one which has investigated the export behavior of Austrian wine estates so far. Therefore, further studies would be beneficial to find out more about the export mode choice by Austrian wineries, perhaps with a broader sample.

**RQ2*: "Which motives do Austrian wine estates have for exporting to China?"***

Mainland Chinas has been known as a promising market for worldwide wine producers due to its great market potential. However, the motivations by Austrian wineries for exporting to China have not been analyzed yet. Consequently, this research (RQ2) had the underlying objective to examine these motives as well as the opportunities in the Chinese market perceived by Austrian wine estates.

The study revealed two major motives. Firstly, the size of the market as well as potentially high sales volumes highlight the potential of the market. Moreover, high average prices and the willingness to purchase wine attract the wineries. Secondly, Austrian wineries want to be present on the Chinese market to improve their image and gain reputation on an international level. Further, they already want to be represented in the market in case the demand for Austrian wine rises.

The mentioned motive of market size and potential due to its high population complies with the papers by Mitry et al. (2009), Smith et al. (2012), and Liu et al., (2014). However, the second motive for exporting to China to be present on their market has not been mentioned in any of the cited literature.

**RQ3*: "Which major challenges or barriers do Austrian wine estates encounter when exporting to China?"***

Another objective of this research was to gather information on potential challenges or barriers in the Chinese market. For this purpose, all experts were asked about hurdles they perceived when exporting wine to China. Various responses were given. The five most frequently stated barriers and challenges were portrayed in figure 11. Cultural barriers (e.g., language barrier, norms and values, business manners) were mentioned the most by experts, followed by tariff and regulative (certificates and export papers) barriers as well as the challenge of finding a suitable partner (e.g., importer). One expert mentioned the different manners of Austrian and Chinese businessmen causing the latter challenge. The different perceptions of business relationships (in Austria and China) as well as the concept of *guanxi* referred to by Gao et al. (2012) might have an impact on this problem.

Some experts named political barriers by referring to the obstacles created by the Chinese government. It must be mentioned that tariff and political barriers interfere due to the Chinese government raising tariffs to protect the local wine production.

Moreover, the limited capacity of Austrian wine, the low consumption of white wine by Chinese, and the price and brand sensitivity were mentioned. However, all of them were only named by one expert. Since no previous research on the challenges and barriers perceived by Austrian wineries in China has existed yet, the results cannot be compared. However, the mentioned barriers investigated in other Chinese industries partially coincide with the findings of this research. Especially cultural, tariff and political barriers have been discussed before (Gao et al., 2012; Ninerola et al., 2017; Jiao & Ouyang, 2019).

**RQ4*: "Do Austrian wine estates consider a sequential process of internationalization when exporting to China?"***

The Uppsala Internationalization Process Model describes the sequential internationalization of a firm which gradually increases its commitment in a foreign market as its knowledge of it grows. For example, after exporting to a foreign market, the firm engages agents who represent it abroad (e.g., representative office). One further step could be to establish a sales subsidiary in the host market (Johanson & Vahlne, 1977).

The expert interviews have led to a quite clear answer to this research question. None of them thought that they had enough market knowledge. All experts except one excluded to apply a more resource intensive strategy and thus increase their commitment in the Chinese market. However, this expert did not comply with the Upsala Model which states that the more market knowledge a firm has, the more willing it is to increase its commitment to the market (Johanson & Vahlne, 1977).

To summarize, it was possible to answer all the research questions by interviewing the selected experts and analyzing and interpreting these interviews. Therefore, this study has led to an advance in knowledge. However, this study only represents an initial investigation on this topic. Further research would be beneficial to verify these findings as well as to specify certain areas of this research more precisely. For instance, to find the motives for choosing indirect export, especially exporters. In this study there was a clear tendency towards importers, and yet most interviewees would also be willing to work with exporters. Hypothetically, if the number of exporters increases, the export mode choice might vary, and the findings could thus differ as well.

# 8 Conclusion

The main goal of the current study was to analyze the export mode(s) selected by Austrian wineries in China. Additionally, the present study investigated the incentive of Austrian wineries exporting to China. Since entering a foreign market usually comes with certain barriers and challenges, another objective was to detect the ones perceived by Austrian wine estates. Moreover, the application of the Uppsala Internationalization Process Model was tested in this study. To answer the formulated research questions, a qualitative research approach was chosen. Seven expert interviews were conducted with Austrian wineries and other experts working in Austrian wine export-related institutions. The gained information was then analyzed within the qualitative content analysis.

The performed research has revealed that the most common mode chosen by Austrian wineries exporting to China is direct export. The wine producers mainly use import merchants in the Chinese market. This has two major reasons. First, the importers have a lot of knowledge of the market and handle most of the activities. Second, there are only a few available exporters and other forms of export such as directly selling to Chinese buyers were not assessed as a realistic alternative. Another finding was that the main motives for exporting to China are (1) the market size and potential as well as (2) the image and reputation the wine estates improve by their presence in the Chinese market. Further, this study has found that cultural (e.g., language barrier or different norms and business matters), regulatory (e.g., difficult handling of certificates), tariff and political barriers were perceived the most problematic. The hurdles regarding the Chinese government might increase in the future due to the exercised protectionism and potential trade wars causing higher tariffs. In addition, the expert interviews showed that one of the biggest obstacles is finding a decent business partner (e.g., importer). However, a suitable business partner is essential for successfully taking root in the market. Further, the application of a sequential internationalization process suggested by the Uppsala Model was not supported by the findings. Due to collaborating with importers, most wineries do not enhance their market knowledge and are not willing to align their business activities and resources towards a higher commitment.

This thesis has provided a deeper insight into the export mode choice by Austrian wine estates in China. It showed that exporting via importers is the most frequently used export mode due to the advantages of importers and the limited availability of exporters. Moreover, China is considered a promising market but the chances for Austrian wineries are limited. On the one hand, the amount of Austrian wine is limited. On the other hand, Austrian wine is relatively unknown compared to other nations' wine. Consequently, China should be considered as a niche market (by wineries that have the necessary resources). The knowledge of wine and the customs of drinking it are still evolving in China. Other wine markets, for instance Singapore, influence the demand for certain wine. As soon as Austrian wine is in demand, the wine producers and suppliers thrive for presence on the market.

One major limitation of this study is the difficult access to data about the Chinese wine market. Further, the sample size was rather small. In future studies, the same research subject could be investigated with a larger sample to establish a greater degree of accuracy. Notwithstanding the relatively limited sample, this work offers valuable insights into the export mode choice and the chances for exporting Austrian wine to China. Another limitation of this research is the small number of literatures concerning the internationalization of Austrian wine estates. This prohibited a comparison with and validation of the obtained results.

Moreover, further investigations may compare the export by Austrian wineries to China with other wine nations exporting to the same target market. This could provide an insight into the different export modes used and might detect potential improvements. More broadly, the additional research could also measure the performance of the applied export modes.

The developments in the future might reveal the potential of the market for Austrian wine estates more clearly. The initially high expectations have already been lowered but most of the interviewed experts still believe in the development of the market. No matter if the expectations will be fulfilled, it is important for the wineries to assess their resources, export experience and market knowledge when planning to enter China.

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# Abstract

Since the opening-up of the Chinese economy and its entry to the WTO, the Chinese economy has flourished. This also affected the Chinese wine market: the wine consumption as well as the demand for imported wine has increased. Austrian wine estates are willing to enter the competition in this dynamic and often described as promising market. The choice of export mode of these wineries was the main issue of this thesis, including their motives and the entry barriers they face. Further, it was examined whether Austrian wineries consider a sequential process of internationalization in China. To answer the research questions, the qualitative research method of expert interviews was used. Therefore, seven guide-based interviews were conducted with suitable experts of which four were wine estates. To analyze the information gathered, the qualitative content analysis was applied. This research showed that Austrian wine estates mainly export their wine in a direct way, namely by collaborating with importers. The results indicated that the Chinese market is attractive to Austrian wineries because of its size and sales potential as well as the chance to enhance their reputation in the international wine scene. However, entry barriers caused by the different culture, bureaucracy and the Chinese government complicate their market entry. It was also revealed that finding a suitable business partner creates another obstacle. Therefore, the market is not necessarily promising, and a firm’s resources need to be realistically assessed when deciding whether and how to enter China. Further, the research could not support the theoretical approach of the Uppsala Model.

# Zusammenfassung

Seit der Reform- und Öffnungsperiode und dem darauffolgenden Beitritt zur WTO floriert die chinesische Wirtschaft. Das hat sich auch auf den chinesischen Weinmarkt ausgewirkt: der Weinkonsum sowie die Nachfrage nach Importwein sind gestiegen. Österreichische Weingüter sind bereit in diesem dynamischen und oft als vielversprechend bezeichneten Markt in den Wettbewerb einzutreten. Die Wahl der Exportform dieser Weingüter war das Hauptthema dieser Arbeit, einschließlich ihrer Motive und der Eintrittsbarrieren, denen sie gegenüberstehen. Weiters wurde untersucht, ob österreichische Weingüter einen sequenziellen Prozess der Internationalisierung in China in Betracht ziehen. Zur Beantwortung der Forschungsfragen wurde die qualitative Forschungsmethode der Experteninterviews verwendet. Dazu wurden sieben leitfadengestützte Interviews mit geeigneten Expertinnen und Experten geführt, von denen vier Weingüter waren. Um die gesammelten Informationen zu analysieren, wurde die qualitative Inhaltsanalyse angewendet. Die Untersuchung ergab, dass österreichische Weingüter ihren Wein hauptsächlich direkt exportieren, nämlich in Zusammenarbeit mit Importeuren. Die Ergebnisse deuteten darauf hin, dass der chinesische Markt für österreichische Weingüter aufgrund seiner Größe und seines Absatzpotenzials sowie der Chance, ihr Ansehen in der internationalen Weinszene zu steigern, attraktiv ist. Allerdings erschweren Eintrittsbarrieren durch die unterschiedliche Kultur, Bürokratie und die chinesische Regierung den Markteintritt. Es zeigte sich auch, dass die Suche nach einem geeigneten Geschäftspartner ein weiteres Hindernis darstellt. Daher ist der Markt nicht unbedingt vielversprechend, und die Ressourcen eines Unternehmens müssen realistisch eingeschätzt werden, wenn man entscheidet, ob und wie man in China eintreten will. Weiterhin konnte diese Arbeit den theoretischen Ansatz des Uppsala Modells nicht unterstützen.

# Appendix: Interview Guides (A and B)

Interview Guide A (Wine Estates):

1. Bitte beschreiben Sie kurz Ihr Weingut sowie Ihre Rolle darin.

2. Wieviel Wein produzieren Sie jährlich? Wie hoch ist dabei der Exportanteil (in %)?

3. Was sind Ihre wichtigsten Exportländer?

4. Erzählen Sie mir bitte über den Markteintritt in China. Seit wann sind Sie dort vertreten? Wie ist der Eintritt verlaufen? In welche Regionen exportieren Sie?

5. Wie gestaltet sich der Export nach China? Wer kümmert sich um die Exporttätigkeiten? Exportieren Sie mithilfe von österreichischen Exporteuren oder chinesischen Importeuren? Warum haben Sie sich für diese Form von Export entschieden?

6. Welche Weine exportieren Sie nach China? Welche Weine sind dort besonders beliebt?

7. Warum exportieren Sie nach China? Welche Anreize bietet dieser Markt für Sie?

8. Auf welche Hindernisse sind Sie bisher beim Export nach China gestoßen?

9. Welche Unterschiede sind Ihnen dabei im Vergleich zu anderen Ländern, in die Sie exportieren, aufgefallen?

10. Finden Sie, dass Sie Vieles über den Markt dazugelernt haben? Können Sie sich vorstellen in den nächsten Jahren ihre Strategie in China zu ändern?

<u>Interview Guide B:</u>

1. Bitte beschreiben Sie kurz Ihre Rolle im Unternehmen.

2. Welche Erfahrung haben Sie mit dem Thema „Export von österreichischen Wein nach China“?

3. Wie beurteilen Sie die Chancen für den Export österreichischer Weine nach China? Warum?

4. Wie gestaltet sich der Export österreichischer Weine nach China? Würden Sie sagen, dass mehr direkter oder indirekter Export stattfindet? Warum?

5. Gibt es (Ihres Wissens) viele Exporteure in Österreich, die den Weingütern beim Export nach China helfen? Würde Sie sagen, dass eher diese oder chinesische Importeure als Vermittler bzw. Zwischenhändler gewählt werden?

6. Würden Sie den chinesischen Markt generell als attraktiv für österreichische Weingüter beurteilen? Warum (nicht)?

7. Welche Barrieren und Herausforderungen können Sie beobachten?

8. Welche Möglichkeiten oder Anreize bietet der chinesische Markt für den österreichischen Weinexport?

9. Wie würden Sie die Markteintrittsstrategien außer Export einschätzen? Glauben Sie, dass ein gradueller Wechsel von Export auf eine ressourcenintensivere Strategie möglich bzw. ratsam wäre? (z. B. Wenn mehr Wissen über den Markt und Kontakte vorhanden sind.)

10. Wie schätzen sie die zukünftigen Entwicklungen ein?