A localization problem:
How to market the Chinese liquor baijiu in Europe?

Tutor : Richard RYAN
Solemn Declaration

I, the undersigned, XIA Tian, declare that I have acquainted myself with the ethical principles of academic writing and certify that this work complies with the requirements of the university.

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Table of contents

Acknowledgement........................................................................................................2
Abstract.......................................................................................................................5
Résumé.......................................................................................................................5

1. Introduction.............................................................................................................6
   1.1 General background to Chinese liquor.........................................................6
       1.1.1 International trade environment for Chinese liquor.........................6
       1.1.2 Brief description of baijiu.................................................................6
       1.1.3 Necessity of localization.................................................................7
   1.2 Theoretical background and literature review............................................7
       1.2.1 Localization theory.........................................................................7
       1.2.2 Liquor market in Europe.................................................................8
       1.2.3 Existing market research for baijiu in Europe...............................9

2. Materials and methods.........................................................................................10
   2.1 Interview..........................................................................................................10
       2.1.1 Research design..............................................................................10
       2.1.2 Participants.......................................................................................11
       2.1.3 Materials............................................................................................11
       2.1.4 Data collection....................................................................................11
   2.2 SWOT analysis................................................................................................12
       2.2.1 Objectives of SWOT analysis............................................................12
       2.2.2 Results of SWOT analysis.................................................................13
           2.2.2.1 Strengths..................................................................................13
           2.2.2.2 Weaknesses..............................................................................13
           2.2.2.3 Opportunities............................................................................14
2.2.2.4 Threats.........................................................................................15

3. Results and discussion............................................................................15

3.1 Strategies in socio-cultural environment............................................15

3.1.1 Core competence..............................................................................15

3.1.2 Baijiu culture promotion....................................................................16

3.1.2.1 Culture localization by baijiu firms..............................................16

3.1.2.1.1 Food culture and baijiu appreciation methods..........................16

3.1.2.1.2 Culture awareness in packaging............................................17

3.1.2.2 Culture promotion by education organization..............................18

3.1.3 Improve social responsibility..........................................................18

3.2 Strategies in commercial environment................................................19

3.2.1 Exhibitions ....................................................................................19

3.2.2 E-commerce...................................................................................20

3.2.2.1 Online marketing ......................................................................20

3.2.2.2 Cultural Awareness in Web Design .........................................20

3.2.3 Broadening line extensions............................................................22

3.3 Strategies in legal and political environment.......................................22

3.3.1 Technical barriers..........................................................................22

3.3.2 Baijiu industry association and local government..........................23

4. Conclusion............................................................................................24

5. Annex..................................................................................................26

6. Reference...............................................................................................28
Abstract

Being one of the world’s four most famous distilled beverages, Chinese liquor (in Chinese “baijiu”) has a very long history and cultural tradition. As the domestic market becomes saturated, baijiu firms begin to export their product. Logically, localization becomes an inevitable mission that every baijiu company needs to accomplish. The present paper will describe some research on the localization of the Chinese liquor in Europe. Two interviews with professionals in the alcohol beverage domain were conducted so as to obtain more practicable suggestions. Strengths, weaknesses, opportunities and threats of baijiu industry’s performance were presented through SWOT analysis. Localization strategies are presented from three aspects: strategies in socio-cultural environment, strategies in commercial environment and strategies in legal and political environment. It is concluded that standardization, core competence and support from government and local association are the first step of baijiu localization management. Besides, localization of baijiu and promotion of baijiu culture should be performed simultaneously. Finally, commercial strategies including exhibition, e-commerce and broadening line extension are supplemented so as to support the research.

Key words: Chinese liquor, Commercial strategy, Europe, Localization, Legal and political strategy, SWOT analysis, Socio-cultural strategy.

Résumé

Etant l’un des quatre plus célèbres boissons distillées dans le monde, alcool chinois (en chinois "baijiu") possède une longue histoire et la tradition culturelle. Etant donné que le marché intérieur est saturé, les entreprises d’alcool chinois commencent à exporter leur produit. Logiquement, la localisation devient une mission inévitable que chaque entreprise de baijiu doit accomplir. Une étude sur la localisation de baijiu en Europe est réalisée dans cette recherche. Deux entretiens avec des professionnels dans le domaine des boissons alcoolisées ont été conduits pour obtenir des suggestions plus praticables. Forces, faiblesses, opportunités et menaces de la performance de l'industrie de baijiu ont été présentés par l'analyse SWOT. Stratégies de localisation sont présentées à partir de trois aspects: les stratégies dans un environnement socioculturel, les stratégies dans un environnement commercial et des stratégies dans un environnement juridique et politique. Il est conclu que la normalisation, le Cœur de compétence et le soutien du gouvernement et d’association locale sont la première étape de la gestion de localisation. En outre, la localization de baijiu et la promotion de la culture de baijiu doit être réalisée simultanément. Enfin, les stratégies commerciales, y compris l'exposition, l’e-commerce et l'extension de la gamme de produit sont complétées pour soutenir la recherche.

Mot clefs: Alcool chinois, Europe, Localisation, SWOT analyse, Stratégie commerciale, Stratégie juridique et politique, Stratégie socioculturelle.
1. Introduction

1.1 General background to *Chinese liquor*

1.1.1 International trade environment for Chinese liquor

Signed in 1997, GATT (General Agreement on Tariffs and Trade), a multilateral agreement regulating international trade substantially lowers trade barriers, promotes cooperation between participants and gives an impetus to overseas trade. In the meantime, services, product and processes quality have been largely developed thanks to ISO standards, such as ISO 9000, ISO 22000 etc. While international agreements or organizations tried to establish a relatively fair trade platform, companies should pay more attention to the ways of conducting overseas business. Approved at the WTO Ministerial Conference in Doha in November 2001, China’s WTO membership noticeably reduces tariff and non-tariff barriers for Chinese companies, which boosts China’s foreign trade. Logically, not satisfied with the limited market share within China, more and more Chinese companies intend to improve their chances of profit by exploiting overseas markets. And this movement covers all sorts of trades and professions. The present paper will describe some research on the movement of the Chinese liquor industry in Europe.

1.1.2 Brief description of baijiu

Along with brandy, whiskey and rum, Chinese liquor (in Chinese “baijiu”) is one of the world’s four most famous distilled beverages. But the typical starter-making techniques, multiple saccharification, fermentation techniques, distillation by steamers, blending techniques and microconstituents, etc. (Laidengyi, 2007) have distinguished Chinese liquor production from other distilling spirits in the world. Baijiu is usually made from sorghum and other grains: in southern China, producers often use glutinous rice, while northern Chinese varieties may employ wheat, barley or millet. Baijiu can be classified according to its scent. The traditional fragrances for baijiu are “sauce” fragrance, strong fragrance, mild fragrance, rice fragrance and other fragrance. Generally speaking, the alcohol content of baijiu varies between 35 and 65 percent ethanol. Thus, it is possible that the strong smell of this spirit will make Western customers uncomfortable.

The production and consumption of Chinese liquor dates back to five thousand years ago. Nowadays, its production areas are mainly grouped in north China (Anhui, Henan, Shandong, Shanxi), in the east region (Jiangsu) and in the southwest region (Sichuan, Guizhou). Renowned brands in the north China are: Fengjiu, Xinghuacun, Xifengjiu. And Yanghe, Shuanggou are admired in the east region. In China’s south-west, where around 25% of all China’s baijiu is produced, famous brands include: Maotai, Wu Liang Ye, Shui Jing Fang, Jian Nan Chun, Lang Jiu and Lu Zhou Lao Jiao. It is worth mentioning that Maotai, national liquor, claimed a gold medal at Panama-Pacific Exposition in San Francisco in 1915 and won two gold medals separately at the Paris International Exposition in 1985 and 1986 (“Maotai”, n.d.). Unfortunately, only SeeWoo (a oriental supermarket) in United Kingdom sells Chinese liquor at present. And very few Europeans
1.1.3 Necessity of localization

The principal and primary aim of business, no matter what kind of domain it is in, is only profit maximization. Small businesses can operate all around the world, but in order to grow the business, companies have to exploit new markets ceaselessly. Thus, in order to broaden foreign market share and increase profits, some Chinese liquor companies began to export. However, many of them failed to maximize the return on their investment. Some insiders reveal that the overseas price of some famous Chinese liquor is far lower than that in mainland China, so some Chinese consumers choose to buy baijiu in foreign countries and then take it back to China. Exporting is a process during which a product is transferred from one country to another country. But real overseas sales volume is not necessarily equivalent to export volume. We still need to make it clear whether the products exported are well transferred to target consumers. Locating products or services in target market and letting the target customers accept products or services as soon as possible are not an easy job. Consumer demand, relevant rules and laws, distribution channels, product design, advertising campaigns and many other problems constitute the barrier for baijiu localization. In this case, localization becomes an inevitable mission that every baijiu company needs to accomplish.

1.2 Theoretical background and literature review

1.2.1 Localization theory

Far beyond mere word-for-word translation, localization is the process of changing the documentation of a product, a product itself or the delivery of services so that they are appropriate and acceptable to the target society and culture. It concerns the changes required to cater to the needs of a particular ‘locale’ (Esselink, 2000). 226 countries and regions around the world represent 226 kinds of culture or even more. Peoples in different cultural backgrounds perceive words, icons, symbols and colours differently. Therefore, companies have to tailor their product to match the language, culture, politics and statute of the country they are going to do business in. Sometimes, they even need to adjust the product’s property and form so as to satisfy the demand of
a target audience. Designing a product to meet a specific demand does indeed help companies to enter a foreign market. However, mere adjustment may be not enough for staying long in one market, so other strategies need to be developed so as to achieve long-term goals.

1.2.2 Liquor market in Europe

Before “selling” baijiu culture, research on the liquor market in Europe is essential. Famous spirits including brandy, cognac, rum, whisk(e)y, vodka, tequila, gin are common in Europe. These spirits are obtained by distillation from fermented fruit or plant juice or from a starchy material (such as various grains) that has first been brewed (Alan T. Thomas, Encyclopaedia Britannica). They can also be divided into flavored or unflavored ones. Although the alcoholic content of spirits is higher than that of beer or wine, it is still controlled between 35 and 45 percent in order to suit the local palate.

There are currently eight spirits companies doing business in Europe: Diageo, Bacardi-Martini, Beam Global Spirit & Wine, Brown-Forman, Gruppo Campari, Moët Hennessy, Pernod Ricard and Rémy Cointreau. For example, Diageo, located in London, is the largest spirits producer in the world.

It exports to 180 countries and holds branches in 80 countries. It possesses many popular brands including Johnnie Walker, Crown Royal, J&B, Windsor, Smirnoff, Baileys, Captain Morgan, etc. In July 2013, Diageo got approval from the Chinese authorities to control over 50% of the holding of the Shuijingfang Group Company Ltd, the listed producer of baijiu in Sichuan (Paul Jarvis and Clementine Fletcher, 2013). The purchase is a milestone for both Diageo and Shuijingfang. Diageo is now preparing to break one of the most popular Chinese liquors, shuijingfang, into the U.S. market. Camille Dor (2013), spokeswoman of Diageo, said that while the U.S. baijiu market was in "an early stage of development," Diageo saw an opportunity to broaden the drink's appeal to both the Chinese diaspora and American and adventurous experience seekers.

According to spiritsEUROPE(2012), the liquor market in Europe is currently confronting a challenging economic climate due to demand depression imposed by the crisis, austerity actions and higher taxation. However, Europe continues to be one of the most important spirits markets in the world, and keeps producing excellent liquors. In addition, alcoholic beverages, especially liquor with high alcohol content, cause harm to some consumers, their families and society at large, so relevant health problems are being increasingly considered by companies and customers. Spirits makers, organizations and government are taking action to address these problems. It is conceivable that the marketing of spirits in Europe will become more tightly controlled and regulated. Thus, foreign liquor companies have to comply with strict local rules if they want to enter such a well regulated liquor market.
1.2.3 Existing market research for baijiu in Europe

On the analysis of the European liquor market, we may wonder whether Chinese liquor has successfully entered Europe. According to Matt Trusch, CEO of baijiu Spirits in Diageo, baijiu hasn’t been well accepted by Westerners because of its high alcohol content. Compared with vodka (40 percent), baijiu may not be able to please the Western palate. "You go to a bar and you see tequila from Mexico, vodka from Russia, sake from Japan, scotch from the U.K., and you’re wondering, where is the baijiu from China," Trusch once said( Adam Molon, 2013). Compared with the market share of other types of spirits (brandy, whisky, vodka, gin, rum), baijiu’s European market share is small, even negligible. It is tough to find Chinese liquor on European shelves. If we ask people purchasing in supermarket whether they want to buy baijiu, we may get answers: “I don’t like its strong smell” or even worse “what is baijiu?” On the one hand, the current situation reflects a lack of advertising campaign and cultural communication. Some vital messages have not been successfully transmitted to local people. On the other hand, we could find the value of exporting baijiu both in business and cultural communication.

Just like other spirit giants in the world, the baijiu industry in China is also seeking to expand its overseas market. Europe's drink giants, including Diageo and France-based rival Pernod Ricard S.A., are now fighting to break the market for China's national liquor. Diageo has introduced Chinese spirit Shuijingfang into the GB domestic market and this white liquor is well distributed by SeeWoo, an oriental food wholesaler (Simon Zekaria, 2013). And Diageo also intends to sell baijiu in northern Europe in 2014. Diageo is starting with airport duty-free zones for Chinese tourists before targeting non-Chinese buyers outside of travel retail locations, said spokeswoman Camille Dor (Adam Molon, 2013).

Chinese spirit makers are also struggling for more market share by themselves. Wuliangye Group Co., increased successfully its brand awareness in United Kingdom in 2013. Liu Zhongguo, CEO of Wuliangye Group Co., was invited to the 65th birthday party for Prince Charles of the UK. The gift of spirits was highly praised by Prince Charles. And Wuliangye held a liquor tasting event for the House of Lords. More than 50 politicians and business leaders from England and Ireland attended the event in London. The delegation from China also showed them a documentary about the Wuliangye liquor history, brewing techniques and the Chinese liquor culture, which enhance mutual trust and future cooperation (“Wuliangye tasting”,2012). Besides the tasting event, Wuliangye also joined various exhibitions in England, France, Spain and Italy to promote its global image. In the past two years, Wuliangye Group has participated in the London International Wine and Spirits Exhibition, International Food Exhibition in Paris, Bordeaux International Wine and spirits exhibition and a series of trade shows. Liu said “we will launch a sales center in Europe, so our consumers there can easily access Wuliangye and have a chance to sip the fine liquor from China” (“Wuliangye tasting”,2012). We could see that Chinese liquor companies are trying to open up the European market and to lay the groundwork for future development in Europe.

Given the context, Chinese liquor makers could be positive about the future of baijiu. However, as it turned out, perplexities were just beginning. It is still unknown whether the quality and traditional flavor can meet the demand of European locals and whether Chinese liquor production techniques and standards can be made compliant to European rules. And it is also highly debatable
whether the involvement of European spirit giants can improve Chinese liquor’s situation culturally. Thus, there are still a lot of production difficulties and marketing problems to be solved. We set out to assess the localization of baijiu in Europe on the basis of a SWOT analysis mode and qualitative research.

2. Materials and methods

2.1 Interview

2.1.1 Research design

This interview was designed with two objectives in mind: to discover obstacles that need to be surmounted in baijiu localization and to collect some practicable and efficient suggestions. Thus the researcher has chosen two companies in the alcohol beverage domain.

The first one is Sichuan Swellfun Co. Ltd. (in Chinese: Shui Jing Fang Co. Ltd.). It is located at No. 9 Quanxing Road, Jinniu District, Chengdu Province, China. Based in Chengdu, ShuiJingFang has been producing baijiu for more than 600 years. It is the fourth biggest producer in the premium end of the Chinese domestic market (Denise Roland, 2013). With the effort of Diageo, Shui Jing Fang is on the way to being the leading international baijiu brand. It is sure, during this localization process, that Shui Jing Fang Co. Ltd. will encounter numerous difficulties and will also gain much unprecedented practical experience. All this information is useful for the present research.

The second company is also chosen in the interests of the Chinese liquor Industry. MTE INTERNATIONAL (Grands Vins de France) is located at No.16 rue Patrick-Depailler, Clermont-Ferrand, Auvergne, France. With over 10 years of experience in exporting wine, MTE INTERNATIONAL has performed as an outsourced export department for many winemakers in France. MTE provides service for all partners (wineries, investors) around the world and does business with importers and distributors in Japan, Brazil, Russia and China. French wine has a world-wide reputation for quality, vinification, innovation and wine culture. People from different countries not only drink French wine, but also collect masterpieces and learn drinking etiquette. Why can French wine be so highly appreciated by people of different culture? What are the major sales and marketing strategies? Can Chinese liquor directly copy French wine’s localization strategies?

The present research applies qualitative methodology. Qualitative methodology is an in-depth exploration of what people think, feel or do and, crucially, why. Qualitative research follows a semi-structured discussion guide to ensure that all topics under consideration are covered and that the discussion stays relevant. The discussion process can reveal underlying views and motivations, behavioral triggers and barriers (Rob Sheldon, 2009) Precisely, one-on-one interviews are used in this research and are conducted by telephone or face-to-face.
2.1.2 Participants

Two participants took part in my research: Li Weibin, the publicity manager of Shui Jing Fang Co, Ltd. and Bai Kai, the export manager of MTE. These two managers were invited because they have a further insight into the nature of the alcohol beverage industry and have a better understanding of relevant management matrix and process.

The researcher conducted a one-on-one interview with each of them: telephone interview for Shui Jing Fang publicity manager in China on 11 February 2014 and face-to-face interview for export manager in France on 14 February 2014. Each interview took about half an hour and ran smoothly in a positive climate.

2.1.3 Materials

Before starting interviews, the researcher did some general research about the two companies and tried to gain a better understanding of the two companies’ structure, activities and products so as to prepare a more ordered and individualized interview. In addition, at the beginning of the interview, the participants were informed of the subject and objectives of the research.

My interviews contained several main questions as well as supplementary questions intended to help interviewees to clarify and expand on their points.

Main questions for Shui jing fang sales manager:
1. What are your attitudes about the cooperation between Diageo and Shui Jing Fang?
2. Do you agree that Chinese spirits have reached a high level of internationalization?
3. What are the difficulties that we need to overcome in the process of baijiu localization in Europe?
4. Do you have any suggestions for baijiu localization in Europe?

Main questions for MTE export manager:
1. Similarities and differences between Chinese liquor and French wine?
2. How do you manage French wine export? What are the localization strategies?
3. What are your opinions about the localization of Chinese liquor?
4. Are the localization strategies applied in wine export suitable for baijiu localization?

2.1.4 Data collection

During interviews, answers of participants were recorded. The researcher took notes about the key information and case narratives. When necessary, participants were asked to restate an answer so the researcher could be sure to correctly capture their opinions and their arguments. After each interview, the researcher re-organized the interview data, so that the answers had a more comprehensible structure and could be easily compared.

Li Weibin, the sales manager of Shui Jing Fang, keeps a positive attitude towards the cooperation
between Diageo and Shui jing fang. Because Diageo knows its domestic market and the European market better than Chinese companies. He said that, with less political stress from the Chinese government, Shui Jing Fang could compete more effectively in the global market. Chinese spirits still have a long way to go to achieve internationalization as well as localization in Europe. Poor management experience, political influence, technical barriers and lack of marketing talents are the major difficulties in baijiu localization. Mr Lin suggests that creation of “Chinese Bordeaux”, cultivation of localization talents and choice of target markets could promote baijiu localization.

As for the MTE export manager, she emphasized that the localization strategies applied in wine export are not completely suitable for baijiu localization due to their differences in raw materials, process, food recommendation and culture. It is very hard to localize Chinese liquor in Europe, in her opinion. In terms of liquor consumption habits, liquor is associated with bar culture in Europe while in China, baijiu is associated with banquet culture. It is not easy to change European’s drinking habits. Concerning MTE’s localization strategies, Ms Bai emphasizes three aspects: “selling the culture”, employment of salespersons and diversified distribution channels.

2.2 SWOT analysis
2.2.1 Objectives of SWOT analysis

SWOT refers to strengths, weaknesses, opportunities and threats. SWOT analysis could help Chinese liquor companies to identify the internal (strengths and weaknesses) and external (opportunities and threats) factors that will affect the industry’s performance. SWOT analysis helps a company be better prepared for whatever it will encounter in the external environment.

Firstly, identifying Chinese liquor industry’s strengths assists baijiu companies in discovering competitive strengths that have not been fully utilized in the past and allocating all these resources in a way that will give rise to better localization and more market share in Europe. Secondly, evaluating the critical aspects that need to be improved helps the baijiu industry to compete more effectively. A realistic assessment of weakness can prevent strategic blunders like entering a market with products that are clearly inferior to what well-entrenched competitors are offering (Rob Sheldon, 2014). Thirdly, seeking new opportunities can help baijiu companies to formulate accurate localization strategies, such as developing product line extensions, broadening product distribution and discovering new potential customer groups. Finally, beyond those caused by direct competitors, changes of regulatory environment both in China and in Europe can have adverse influence on business. Thus predicting risk outside a baijiu company’s control could reduce potential negative impact on localization.

It is noteworthy that SWOT analysis may have some drawbacks due to lack of control and oversimplification. There may be times when opportunities can also be threats. Current weaknesses can and must be turned into future strengths. Elements out of control may include changes to government legislation, changes of raw materials price and insufficiency of skilled human resources. Therefore, the present research tries to avoid these drawbacks by considering each situation in the light of the baijiu industry’s overall objectives.
2.2.2 Results of SWOT analysis

2.2.2.1 Strengths

Production techniques
Among the four top distilled spirits, only baijiu employs solids in the fermentation process. This unique distillation process can serve as Unique Selling Proposition. Baijiu can be classified in three ways: premium, super premium and ultra premium. These designations relate to the baijiu’s quality, which is attributed to the number of times baijiu is distilled and what type of filtration process is employed. Generally speaking, more times mean higher quality. And the time employed also affects the consistency and taste of baijiu.

Multiple varieties
Baijiu can be generally divided into five aroma types: sauce aroma, strong aroma, mild aroma, rice aroma and other aromas. It is also divided into six flavor categories: sour, sweet, spicy, bitter, salty and others. The quality and taste of baijiu can become important selling points for the marketers, because different tastes can meet the demands of different consumers.

Baijiu culture
A significant trend toward a modern market economy is the integration of economy and culture. In the economic landscape of the 21st century, cultural influences of one country reflect its economic influences. As one of the great countries with ancient wise civilization, China has Confucius, traditional Chinese medicine, calligraphy, silk, cuisine, fireworks and many other historical resorts, such as the Great Wall, The Dunhuang frescoes etc. Baijiu is also a composition of Chinese wise civilization. Seen as a unique traditional product, baijiu has a special position in Chinese culture. “Selling spirits is selling culture” said the export manager of MTE (personal communication, February 14, 2014). Many baijiu brands have a rich cultural heritage which can be applied as a localization tool.

2.2.2.2 Weaknesses

Baijiu culture
Baijiu culture can also be seen as a weakness because Chinese culture and tradition are not well perceived in many European countries (Bai Kai, personal communication, February 14, 2014). Besides, low quality manufactured goods, low product safety standards, counterfeiting are negative judgments and prejudices with regard to China that have to be taken into account when marketing Chinese goods. Their perceptions of symbols of China such as the dragon and panda are not enough. To localize baijiu, baijiu culture could be an efficient vehicle. Drinking etiquette, food recommendation, wide utilization of baijiu in Chinese traditional medicine and many other baijiu cultures could be used to attract the attention of European customers. We can say that the process of baijiu localization is also the process of promotion of Chinese culture.

Lack of professionals
Being a traditional industry in China, the baijiu companies are mostly located in regions with lots
of natural resources. These regions have a long farming civilization but a short industrial civilization. Although baijiu companies try to be equipped with modern technology and advanced facility, their corporate philosophy and business vision are not well shaped and their talent reserves are far behind other developed liquor companies. To localize baijiu in Europe, baijiu companies need baijiu expertise with marketing, foreign trade and intercultural communication knowledge (Lin Weibin, personal communication, February 11, 2014).

Political environment
Many famous baijiu enterprises are mostly state-owned or state-controlled enterprises. Entrepreneurs are working under business pressure and political pressure. Thus if they fail, they will be at great risk, ranging from accountability to legal liability. The goal of any business is revenue growth, but if the risks and benefits are not proportional, companies will lose enthusiasm and motivation (Lin Weibin, personal communication, February 11, 2014). Therefore, it’s necessary to change the current system. In the early stage of localization, income is low and risk is high, government and relevant department should formulate policies to encourage entrepreneurs to participate in international competition in the market.

2.2.2.3 Opportunities

Drinking option diversification
The world economy is expanding and average personal wealth is increasing worldwide. With the booming economy and increasing consumption capability, there seems a clear trend that people prefer to drink better rather than to drink more. An individual consumer now tends to choose a price, a color, a bottle, and a flavor of liquor to match his or her mood (Etienne Musonera & David Hemley, 2007). The trend of consumers’ preferences may imply a need of consumer-oriented localization strategy for the baijiu industry.

Trends in Electronics
Technological developments are having considerable impact on all aspects of the marketing practice including marketing communication, distribution and marketing research. The export manager of MTE said that her export team is trying to improve their website and product catalogue so as to promote e-commerce. It implies that baijiu manufacturers need to catch up with the e-commerce development.

High alcohol consumption in Europe
According to spiritEUROPE(a spirit of growth, 2012), 26 million hectoliters of spirit drinks are sold in the European Union. Most products are sold via supermarkets and other outlets, while the rest is consumed in the hospitality sector – in bars, restaurants and hotels. According to a recent WHO report (Global status report on alcohol and health, 2011), on average, Europeans over 15 consume 12.5 liters of alcohol annually. Thus it continues to be one of the most important spirits markets in the world, and is home to world famous products.
2.2.2.4 Threats

Too many competitors
With numerous choices of alcohol beverages including spirits, wine and beer (flavored/non-flavored, domestic/imported, and premium/ultra-premium) in the marketplace, it is hard for European customers to differentiate baijiu from other alcohol beverages. Moreover, as a new comer, is it possible for baijiu to change existing European attitudes and prejudices towards Chinese liquor?

Commercial and legal restriction
European government leaders, regulators, and some public interest groups have proposed possible regulatory actions, placing all alcohol beverages under scrutiny. The major TV networks, while happy to air million euros’ worth of beer ads each year, have refused to air ads for presumably more dangerous hard liquor (Etienne Musonera, David Hemley, 2007). Indeed, alcoholic abuse can lead to negative consequences for both personal health and social security, for instance, various illnesses, automobile accidents and violent incidents. Thus localization strategies should be adjusted responsibly.

Technical barriers
The 21st century is the era of standardization. European countries formulate a variety of technical barriers to protect food safety and domestic liquor market. They have made strict rules on ingredients, additives, contaminants and labeling. Rigorous testing procedure and detection tools are also obstacles for Chinese liquor. Unfortunately, the analysis of baijiu’s trace components has so far proved inconclusive (Lin Weibin, personal communication, February 11, 2014).

3. Results and discussion

3.1. Strategies in socio-cultural environment

3.1.1 Core competence
The core competence is a management concept originally advocated by C.K. Prahalad and Gary Hamel in 1990. A core competence is perceived as a critical competence which is a complex coordination of multiple technologies. A competitor might imitate some of the production methods but it will find it more complicated to copy the inner coordination of production skills (Robert L Cross, Sam Israelit, 2000). Lin Weibin(personal communication, February 11, 2014) holds that develop core competence means to develop core technology. In the first place, baijiu companies should, during the creation of the core competence, distinguish the common, general, proprietary and key technology. Then, they should concentrate human, material and financial resources on the research and development of proprietary and key technology so as to develop their own intellectual property rights.

The researcher holds that apart from developing core technology, integration of baijiu culture is also necessary. Regulated and unique production skills can build consumers’ confidence in the
product while baijiu culture can be able to attract consumers. Chinese liquor culture, just as described above, is different from the other liquor culture in European market. And this difference can serve as a selling point to arouse the curiosity of European consumers and then encourage them to purchase.

We may reasonably conclude that the core competence of Chinese liquor is composed of culture value and technology value. Therefore, Chinese liquor companies should try to coordinate production skills and then integrate their unique baijiu culture. The aim is to create unique cultural strength which serves as the base of baijiu localization. Only the promotion of cultural strength can help baijiu to occupy an irreplaceable position in European market.

### 3.1.2 Baijiu culture promotion

Chinese liquor failed to be well localized in Europe as expected, and the general explication is cultural differences and high alcohol content. On the one hand, it is difficult to get European consumers to know and accept the real baijiu culture; on the other hand, it is also complicated and costly to change baijiu production technique so as to satisfy the European palate.

Admittedly, the two points are obstacles in the baijiu localization process. But it is unreasonable to change and neglect baijiu culture or reduce alcohol content of all the baijiu exported to Europe. French wine sells well in China and also highly praised by Chinese consumers. But does every French wine consumer know French wine culture? Does every Chinese consumer accept the taste of French wine? French wine is not sold to all Chinese people, but to people who understand it, who are willing to accept it or who claim to understand it.

Taste recognition can be developed slowly. We find that no French wine is changed in order to fit Chinese people. One the contrary, French companies constantly emphasize its pureness, difference and culture behind every bottle of wine.

From the above, it is safe to say that being one part of the core competence of Chinese liquor, cultural strength should be promoted, and can be done in two ways:

#### 3.1.2.1 Culture localization by baijiu firms

**3.1.2.1.1 Food culture and baijiu appreciation methods.**

Drinking patterns are embedded in cultural traditions. In Northern Europe, people do not drink regularly or at a fixed time, while in Western Europe, drinking is often linked with eating (the voice of Russia, 2012). The alcohol consumption patterns differ from country to country. Compared with the pub culture in Europe, the Chinese like to drink baijiu during a banquet, celebration, party or family reunion. In China, drinking baijiu is a way to show respect and hospitality to guests, thus the more you drink, the better your relation becomes.
The difference in alcohol consumption influences the localization of baijiu in European countries. Guiding European consumers to accept Chinese food culture could be a good solution. Sake is often associated with Japanese dining and tequila with Mexican (Adam Molon, 2013). Thus we could recommend baijiu to pair with Chinese cuisine.

In this context, thousands of Chinese restaurants in Europe represent an opportunity. But baijiu companies cannot force restaurants to sell baijiu. They have to start from encouraging potential customers to drink baijiu. For example, tell customers how to identify quality of baijiu and how to appreciate baijiu by providing information about appreciation methods and food recommendation on the video-sharing websites, company’s official website or liquor forums. The aim is to teach them how to drink and appreciate Chinese liquor. This is a slow and gradual process, but effective to let more European know baijiu culture and then to purchase.

3.1.2.1.2 Culture awareness in packaging

Baijiu companies could give consumers their product information through multiple ways; for example, a product catalogue, ads in magazines, packaging in a supermarket. How to improve the efficiency of communication in our “over-communicated society” (Ries and Trout, 1986)? Pilditch (1972) suggests that the package design is the “salesman on the shelf”. It is worthwhile to note that it will take a long time for consumers to accept foreign products, and the length of time is partly determined by their understanding of the country. Consumers tend to purchase when the information in the package could attract them and when they have ability to understand or admire the messages. So apart from creating an image of quality in the packaging of baijiu, the combination of cultural elements in the target market and consumers’ understanding of Chinese culture should be taken into consideration in the package design. Vodka marketers distinctively designed the shape of bottle for Jazz vodka. It is in the shape of a trumpet. The reasoning is that consumers’ preference is formed at nightclubs and bars (Etienne Musonera & David Hemley, 2007). Logically, we could make the assumption that a bottle in the shape of a Long (Chinese dragon) will be better understood than the shape of yuanbao(shoe-shaped ingot). Because European people don’t know what yuanbao is, let alone its symbolic meaning. Yuanbao represents wealth, power and fortune: it is currency in ancient times and is made of gold and silver.

Apart from the shape design, colors used on the package must be designed cautiously. Because color perception differs from culture to culture. Compared with companies enjoying monopoly
status, companies which introduce products into highly competitive foreign markets must consider
the combination of product and connotation of colour (Laurence Jacobs, 1990). The export
manager of MTE also holds that the choice of color in the package design influences the quality of
product perceived by consumers. In Chinese’s eyes, France is a place full of romance and luxury
goods. Logically, French wine is also considered as an exclusive alcohol beverage. In China, gold
is often associated with luxury. So golden label and golden logo is more likely to be accepted
(personal communication, February 14, 2014). Thus, baijiu packaging designer should avoid
unappealing connotation of color. For example, red is perceived as happy and wealthy in China
while aggressive in Europe. The researcher holds that white, blue, grey or black would be better in
colour design.

3.1.2.2. Culture promotion by education organization

Education organizations in the present research refer to Confucius Institutes in Europe and
international departments within Chinese universities. Because we can find more people who are
eager to learn Chinese culture in these places. Confucius Institutes are places where foreign people
can learn Chinese language and culture. Compared with British Council or French Alliance,
Confucius Institutes also become a cultural exchange platform.

There are currently 440 Confucius Institutes and 646 Confucius classrooms around the world in
which 149 Confucius Institutes and 153 Confucius classrooms in Europe. We see a great
opportunity to let more Europeans know baijiu culture. Like the tea ceremony courses in Japan,
Confucius Institutes and international departments within Chinese universities could also design
some baijiu culture courses for adult students, for example, simple baijiu history and its production
process, appreciation of high-quality baijiu and food recommendation etc. This kind of courses do
not aim at increasing the sales but cultural communication. Then they might convey the message to
their family and friends by word of mouth. Finally, the message is conveyed to potential
consumers.

3.1.3 Improve social responsibility

According to statistical data 2.5 million people in the world die from excessive alcohol
consumption every year. About 12 percent of people aged between 15 and 64 lost their lives due to
alcohol abuse (the voice of Russia, 2012). However, from a scientific perspective, drinking is not
opposed to keeping healthy. On the contrary, moderate drinking is good for our health. Written by
Li Shizhen during the Ming Dynasty(1368-1644), Bencao Gangmu (Compendium of Materia
Medica), the most complete and comprehensive medical book ever written in the history of
traditional Chinese medicine (“Compendium of Materia Medica”, n.d.) finds that liquor has effect
of stimulating blood circulation, relaxing muscles and joints and relieving much of rheumatism.
The improper way of drinking damages the image of liquor in people’s mind. In the past two
decades, social and environmental organizations and consumers have put more social responsibility
on liquor companies. Liquor manufacturers need to tell consumers the negative effects of excessive
drinking in the ads and to minimize the pollution to the environment in production and packaging process. Christophe Thomassin, Jean-Michel Gilibert(2007) suggest that companies should not only inform consumers, on the back of the packaging, the good ingredients and the less good ingredients, but also give simple information about food recommendation so as to help them make a balanced diet.

Therefore, Chinese liquor firms should highlight health management service in their marketing and communication strategy. Health could be both a problem and an opportunity for baijiu localization. If Chinese liquor leaves a healthy image to European consumers, we could see a virtuous circle in which consumers are willing to purchase and drink in proper way and Chinese liquor companies gain some market share in Europe.

3.2. Strategies in commercial environment

3.2.1 Exhibitions

Compared with television, broadcasting, billboards, magazines and other media, the exhibition is actually a special marketing channel. Exhibition is also a key step for baijiu localization. Actually, exhibitions can offer an ideal platform for baijiu companies to build partnerships and network with a given niche market or potential consumers. In an alcohol beverage exhibition, visitors assess a product or a company by observing a display stand, reading printed promotional materials, talking with marketers and tasting the product. So display stand and promotional materials should be specially designed.

Firstly, stand design, contrary to packaging design, should emphasize Chinese liquor culture and use less or ignore local cultural elements. The aim is to be distinctive and to catch customer’s eyes and to make them want to know more about the product. Secondly, promotional materials should be designed to meet customers’ demand. Baijiu companies could communicate the most important message to target clients. Does the target client care about price, production technique, quality assurance or producing place? However, it is not necessary to put all the information on one material. Bai Kai (personal communication, February 14, 2014) suggests that if the financial condition permits, product catalogue, brochures, leaflets should be designed in at least two languages: English and the local language. Finally, it is noteworthy that the marketer is the representative of baijiu companies. Thus several bilingual marketers with a good understanding of the product, the baijiu culture and the local culture are also necessary for a successful promotion.

Besides, employment of brand ambassador is also in the interest of baijiu localization. In 1998, the first Vinexpo Asia-Pacific was held in HongKong, during which wine and spirits association of Bordeaux region and Alain Juppé the former French Minister of Foreign Affairs employed Jackie Chan and Gong Li as brand ambassador to promote their product and service. The two most bankable stars definitely attracted visitors’ eyes. This marketing strategy benefited French wine and spirits companies and helped them to occupy the Asia-Pacific market (Yang Liu, 2005). Generally speaking, the brand ambassador represents corporate ethics and appearance. Therefore, to localize
Chinese liquor in Europe, employment of a brand ambassador during an exhibition could help to create brand awareness.

3.2.2 E-commerce

3.2.2.1 Online marketing

Internet affects almost every aspect of our lives. It is revolutionizing the way we learn as well as communicating with others. A few decades ago, consumers had to go to a physical store to purchase goods, and merchants had to put ads in the local paper and sell goods in a front store. Nowadays, all has changed. Probably nothing has impacted the business more than the Internet. These revolutions are changing how goods and services are exchanged, how we communicate with customers and employees and how we manage the competition.

The cultural environment, market environment and distribution channel in European countries are very different from the ones in China. The online commerce can help Chinese liquor companies, to some extent, to avoid the difference. Moreover, the development of online trade offers an opportunity for small and medium sized Chinese liquor firms that have financial and human resources limits.

E-commerce could provide baijiu companies with an inexpensive way to meet customers. In the network marketing, physical transaction is replaced by online negotiation; baijiu companies could directly sell their product to importes or even clients, and cut out the middleman; the direct marketing becomes a major sales channels, thus the intermediate transaction costs is saved. Furthermore, Chinese liquor companies could publish through internet their latest business information for global search, in order to introduce the image of company and promote product, service and production technology and baijiu culture. In addition, the internet is also a convenient way to find international partners and develop potential customers.

During the interview with the export manager of MTE, Bai Kai (personal communication, February 14, 2014) gave four pieces of advice for baijiu E-commerce: Firstly, promote website and domain name and improve click-through rate by building site links with renowned foods and drinks websites in European countries. Secondly, build site links with local government website, especially, government’s business website so that European investors can find company information more easily. Thirdly, improve usability of website and quality of service. Finally, questionnaires, feedback forms or comments on the official website can be used to monitoring clients’ demand.

3.2.2.2 Cultural Awareness in Web Design

In an E-commerce setting optimization of website can help companies reach more potential customers. So web design and maintenance become significant for a better presence on the web. Sangwon Lee (2010) suggests that composed of multiple functional attributes including Content
organization, visual layout, navigation system, color, and typography, a website should be designed to meet customers’ preference. Thus usability and esthetics are the most important facets of web design.

The communication styles differ from one country to another, so web design need to reach a high level of cultural adaptability. To localize Chinese liquor by E-commerce, Chinese liquor website should be tailored to fit European communication style. Recognition of difference in values and norms across cultural segments will be beneficial to online marketers as they introduce the product into new markets (Norizan Kassim & Nor Asiah Abdullah, 2010).

The localization of a transnational website is no longer just translation of text, change of time and date-formats, but modification of content structure and visual layout. That is to say graphics, animation and sounds in baijiu website need to be specially designed to appeal to European culture. It is suggested to select 3-4 languages from the 23 European official working languages to design a web. And the criterion is the allocation of potential customers. However, designing a website in 3-4 different layouts is expensive and time consuming, thus it is better to apply the High-Context culture and Low-Context culture theory during the web design.

Figure 1. High-Context culture and Low-Context culture

Source: Hall, E. and M. Hall (1990), Understanding Cultural Differences

Generally speaking, Scandinavians, Germans, and the Swiss are categorized as low-context cultures. Communication in these countries often takes place through explicit statement in text. In high-context culture people are more likely to be impacted by visual images (Elizabeth Wurtz, 2006). So we could hypothesize that use of graphics and animations could help to communicate useful messages to high-context consumers. For example, use of human presence to tell some kind of lifestyle or liquor culture. While for their low-context counterparts, we might highlight the effects of text.
3.2.3 Broadening line extensions

As the world population is growing, young consumers are perceived as the major segment for alcohol companies. Compared with the elderly who prefer wine, the young generation is more eager to purchase beer and liquor (Etienne Musonera & David Hemley, 2007). Furthermore, they tend to be more autonomous and individual and like to seek out new flavor and new brand. However, it is worthwhile to note that consumers tend to purchase a product that has brand recognition. Thus, preference investigations need to be launched if Chinese liquor companies want to introduce several flavored baijiu during the localization of baijiu. Chinese liquor companies need to meet the preference of European young people so as to build brand loyalty. Chinese liquor is divided into six flavor categories: sour, sweet, spicy, bitter, salty and others while other spirits are generally distilled from fruit or starchy material. So baijiu companies could introduce some sweet flavored liquor or design some new flavors. In addition, bars, nightclubs and Chinese restaurants in Europe that are in cooperation with baijiu companies can help promote these flavored Chinese liquors.

3.3. Strategies in legal and political environment

3.3.1 Technical barriers

During the interview, Lin Weibin (personal communication, February 11, 2014) suggested that to achieve localization of baijiu, baijiu companies should, in the first place, be familiar with the European legal system in alcohol beverage control. Generally, the EU spirits regulatory system includes commission regulation EC No 110/2008, EC No 2870/2000, (EEC) No1014/90, and (EEC) No2009/92. Baijiu companies should study these regulations so as to find countermeasures for baijiu localization. European nations have built strict trade and technical barriers and have taken restrictive measures to control quantity and quality of liquor imported. Thus the baijiu industry should apply rationally international trade rules to provide necessary support and protection for baijiu export. Intensive research and sensible use of international trade rules are a matter of great urgency. The aim is to bring the comparative advantage of baijiu standard system into full play (Lin Weibin, personal communication, February 11, 2014).

Besides, current baijiu flavor assessment and quality control is performed by professional testers, gas chromatography or a combination of gas chromatography and mass spectrometry. But these methods are sometimes ineffective and subjective, so application of an “electronic nose” is recommended for the assessment of Chinese liquor (Fan & Qian, 2006). In a word, application of European food safety standard and utilization of international trade rules are not enough, baijiu companies still need to find out more healthy compositions of baijiu which could speed up the localization of baijiu in Europe.
3.3.2 Baijiu industry association and local government

Many famous baijiu companies in China are state-controlled, thus the influence of government policies are considerable. In the initial phase of baijiu localization, baijiu companies have to confront lots of risks. Baijiu entrepreneurs are not willing to invest too much capital into localization. Lin Weibin (Personal communication, February 11, 2014) suggested that to achieve localization, we must integrate marketing resources and improve cooperative network. And only local governments and the baijiu industry associations could help baijiu companies to achieve the target. Thus encouraging policies should be formulated to help baijiu companies to participate in international competition.

Spirits groups and regional associations in European countries including CEPS ((The European Spirits Organization), SWA (Scotch Whisky Association), GVA (Gin and Vodka Association) and BNIC (Bureau National Interprofessionnel du Cognac) attach great importance to the industry standard and policy formulation and revision. Besides, local governments and associations also spread and develop European spirits culture by international exchange and cooperation channels. The aim is to communicate its culture heritage, liquor-making technology and security concept and influence industry standard in the foreign liquor market. Therefore, national baijiu associations including CADA (China alcohol drinks association), China National Association for Liquor and Spirits Circulation and Chinese Liquor Golden Triangle Industry Association should promote baijiu localization from various aspects: Development of baijiu culture, integration of marketing resources, promotion of cultural exchange, provision of technical consultation, participation in the formulation of industry standards and quality supervision etc.

As regards the integration of marketing resources, Lin Weibin (Personal communication, February 11, 2014) suggested that establishing the “Bordeaux” of Chinese liquor (China Liquor Golden Triangle) could help to market baijiu in Europe. Composed of the three most famous liquor-producing cities (Yi bin, Lu zhou and Huai ren), China Liquor Golden Triangle should be built as the most valuable regional brand in China.
4. Conclusion

The aim of the study is to analyze how to market the Chinese liquor baijiu in Europe. Two interviews with professionals in the alcohol beverage domain were conducted so as to obtain more practicable suggestions. Besides, in order to identify the internal and external factors that will affect localization of Chinese liquor, the researcher also conducted SWOT analysis to support the present research.

During the localization process, companies need to tailor their products to cater to the needs of the target market. They have to adjust the method of services delivery or even change their products’ property so as to ensure the product acceptable to the ‘locale’. However, the general localization theory might not be perfect for baijiu localization.

Chinese liquor market has become saturated, but exploration of the international market and baijiu localization in other countries is still in initial phase. To market Chinese liquor in Europe, the baijiu industry has to face the huge difference between European countries and China including liquor culture, drinking habits, production techniques, regulatory system, distribution channels and so on. Therefore, the present research provides some strategies for baijiu localization.

Over the present research, it is discovered that standardization, core competence and support from government and local association are the first step of baijiu localization management. This is also applicable to other products’ localization including electronic industry, medical industry, chemical industry, automotive industry, food industry, packaging industry and so on. Firstly, companies need to do some research on the target market structure, legal system, and technical standards and apply rationally international trade rules so as to be officially approved by local government. Then there comes developing core competence, which is hard for competitors to imitate. Finally, as it is difficult for individual company to integrate marketing resources and improve cooperative network, support from government and relevant associations is also necessary.

Baijiu localization is a huge project which requires the efforts in many fields. It is difficult to stay long in a foreign market only by eliminating technical, legal or political barrier. Thus, the present research suggests that localization of baijiu and promotion of baijiu culture should be performed simultaneously. This is also a localization strategy for companies exporting food, handicrafts and packaging service, for example, tea, milk products, tea sets, liquor sets, leather goods and accessories etc. These companies need to find ways to be adapted to the local culture environment and to meet consumers’ demand, but not by the loss of proper characteristics. As many countries in the world are multi-ethnic and multi-cultural society, cultural collision and integration have become part of their lives, which suggests that consumers in most countries of the world are eager to try new products from foreign countries and create their own consumption style.

The present research also provides several strategies in commercial environment, which are not only applicable to baijiu localization, but also to some other products such as food, handicrafts, vehicles, domestic appliance and so on. Firstly, before attending an exhibition, display stand and promotional materials should be designed to meet customers’ demand in order to communicate the most important message to potential clients. And employment of brand
ambassador and several bilingual marketers with a good understanding of the product and the local culture are also necessary for a successful promotion. Secondly, in an e-commerce setting companies should try to gain more clients by developing on-line marketing, especially, increasing cultural awareness in Web Design to attract audience’s attention and provide more interaction between companies and consumers. Lastly, to meet the trend of consumers’ preferences, companies should constantly seek ways to know how consumers think about the category and properly broaden their line extension.
5. Annexe

Information about the interview

Interviewee: Lin Weibin
Position: Publicity manager
Time of interview: Telephone interview on 11 February 2014
Corporate name: Sichuan Swellfun Co. Ltd. (in Chinese: Shui Jing Fang Co. Ltd.)
Company address: No. 9 Quanxing Road, Jinniu District, Chengdu Province, China.

Company profile: Shui Jing Fang Co. Ltd. is the fourth biggest producer in the premium end of the Chinese domestic market. Founded in December 18, 1993, Shui Jing Fang holds 1022 employees. The company's largest shareholder is a joint venture Quanxing Group Co., Ltd. in Sichuan Chengdu. Its foreign shareholders is one of the world's top 500 companies, the world's largest drinks group DIAGEO. In July 2013, Diageo got approval from the Chinese authorities to control over 50% of the holding of the Shuijingfang Group Company Ltd, the listed producer of baijiu in Sichuan. With the effort of Diageo, Shui Jing Fang is on the way to being the leading international baijiu brand.

Based in Chengdu, ShuiJingFang has been producing baijiu for more than 600 years. Founded in 1408 and rediscovered in 1988, the original Shui Jing distillery is recognized as the oldest and the most complete ancient baijiu distillery in China. Shui Jing Fang is now available in liquor stores around China and is the leading baijiu brand in international Duty Free channels.

Interviewee: Bai Kai
Position: Export manager
Time of interview: Face-to-face interview in France on 14 February 2014
Corporate name: MTE INTERNATIONAL (Grands Vins de France)
Company address: No.16 rue Patrick-Depailler, Clermont-Ferrand, Auvergne, France.
URL: <http://mtevins.fr/>
Company profile: Founded in 2004, MTE INTERNATIONAL is composed of 8 employees: general manager(Frederic BARGE), export manager(Bai BARGE), product manager(Charle ROSIGNOL), three sales representatives(Emrah ISIK, Ying NA, Laura SCHNEIDER), secretary(Ling DUBOIS), accountant(Nicolas LEROY).

With over 10 years of experience in exporting wine, MTE INTERNATIONAL has performed as an outsourced export department for many winemakers in France. MTE provides service for all partners (wineries, investors) around the world and does business with importers and distributors in Japan, Brazil, Russia and China. French wine has a world-wide reputation for quality, vinification, innovation and wine culture.
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