

# RESEARCH AND ANALYSIS ON PROBLEMS FACED BY CHILEAN WINE IN THE CHINESE MARKET —A CASE STUDY OF GUANGDONG PROVINCE

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## Abstract

In recent years, sales of Chilean wines have yielded fast growth in the Chinese market. However, at the same time, the quality of the same types of wines varies suggesting that the market behaviors of the wine enterprises are short-sighted. This paper analyzes this issue from the perspective of supply chain management. It proposes that the Chinese and Chilean wine enterprises should enhance guidance for and study on the consumption demand of the end consumers of wine and carry out vertical and horizontal management of the wine supply chain. In addition, it proposes that the Chinese and Chilean governments should provide policy support to the enterprises of the two countries for the implementation of the supply chain management.

**Key words:** Chilean wine, consumer demand, supply chain management

## 1. INTRODUCTION

Chile is the model for economic development of Latin America. It ranks as No. 1 in Latin America in terms of its overall competitiveness, economic liberalization, market openness, international credit and social governance. Agriculture is an important economic sector of Chile, while agriculture, forestry, fishery and mining constitute the four pillar industries of Chile's economy.

Since 2010, Chile's national economy has been in decline. At comparable prices, the real GDP growth rate in 2016 increased by 1.6% over the previous year, registering a 0.7 percentage points decline from the previous year. However, according to the statistics from Wines of Chile, the contribution rate of the Chilean wine industry to the economy of the country is rising.

China is Chile's largest trading partner, largest export market and the second largest source of imports, while Chile is China's third largest trading partner in Latin America. The industrial structures and the import and export commodity structures of China and Chile have led to highly complementary bilateral trade between the two. China's exports to Chile are mainly mechanical and electrical products, textile products, plastic products, home appliances and so on. Its main imports are mineral products, cellulose pulp, paper and agricultural products. Chile's narrow coastline, fertile land and climate resources make Chile a highly competitive supplier of agricultural products. Chilean wines make up a large share of

Chile's exports of agricultural products to China.

Chile has become an important wine exporter in the 21<sup>st</sup> century. China is the first destination of Chile's wine exports thanks to China's rapid economic growth and the rising interest in and consumption of wine among the Chinese consumers. In the past decade, the volume and value of the exported Chilean wine has increased substantially. According to Wines of Chile, there are currently 300 wineries throughout Chile, among which more than 200 export wines to China.

According to the statistics from China Customs, China imported about 638 million liters of wine in 2016, registering a 15% year-on-year growth, among which about 146 million liters was from Chile, accounting for 22.92% of the total and registering a 5.19% year-on-year decline. The largest source of bulk wine for China is Chile, as China imported about 85.86 million liters in total, registering a 18.32% of year-on-year decline and accounting for around 60% of the total. The value of the bulk wine imported from Chile was around 57.44 million U.S. dollars, 8.67% less than the same period of the previous year and accounting for about 50% of the total. Although the numbers have fallen, Chile has still far surpassed other countries such as Australia. The middle-to-low-end Chilean wines are still very popular in China.

In 2016, Chile exported a total of 195 million U.S. dollars of wine to China (about 1.34 billion yuan). China has replaced the United States as the largest

export destination for Chilean wine.

It is clear that wine trade has a pivotal role to play on the sound development of the relevant markets and industries in both China and Chile. However, the research team found that Chilean wines are still faced with some problems in the Chinese market. This paper will analyze these problems based on the perspective of the supply chain management, and then present conclusions of the team.

## **2. PROBLEMS FACED BY CHILEAN WINE IN THE CHINESE MARKET**

The research team carried out a program on the Chilean wine distributors and consumers in Guangdong Province. After analysis of the research results, it found the following problems faced by Chilean wines in the Guangdong market:

### **2.1 Price of Chilean Wine**

The past few years have witnessed the sales growth of Chilean wines in the Chinese market. However, severe competition exists and has pushed many dealers to offer low prices to attract customers. In 2006, a bottle of ordinary Chilean wine was sold at 58 yuan to Chinese distributors by importers. The price has fallen gradually to 52, 42, 35, 28 and to 22 yuan in 2016. Although the total sales volume of Chilean wines in the Chinese market is increasing, the profits, overall, for the commodity is getting lower and lower for individual enterprises while the sales volume has failed to increase significantly.

In addition, some domestic low-end wines made by unscrupulous Chinese businesses, packaged in a fancy way and disguised as high-end foreign ones, are sold to consumers.

### **2.2 Quality of Chilean Wines**

The research team found that China's increasing import of wine has stimulated some unscrupulous Chilean wineries selling bulk wine to disguise their products as quality-one at the request of the Chinese importers. Some Chilean (or Chinese?) wineries even purchased unbottled wine that has been stored for a long time, bottled them and then sold them to customers as quality wine.

### **2.3 Consumption Intention for Imported Wine**

The research team carried out a research in Guangdong Province on the consumption intention of the local consumers in terms of domestic and imported wine. The result shows that as the import of wine is growing, foreign wine culture is penetrating into and exerting impact on China's traditional drinking culture. However, in general, consumers lack expertise on

wine and imported wine and fail to recognize their origin, level and vintage. When consumers are purchasing wines, they do not have a general knowledge of various brands. As a result, most of wine brands fail to attract the attention of consumers. In the middle-to-low-end market of imported wine, most consumers would prefer cheap wine, in the face of the price wars, to the brands with actual good taste and quality.

### **2.4 Wine Choice of Downstream Chinese Wine Dealers Determined by Import Price**

The research team found that many low-end Chinese wine importers have neither visited the wineries of the Chilean exporters nor had any business exchanges with the Chilean exporters before the two sides sign import and export contract. They know each other only at the expo. When the contract is enforced, the quality of the first batch of imported wines is satisfactory, but the quality of the second one is completely inferior to that of the first one.

With further research, a few reasons are found. First, the Chilean wine exporters who have signed contract with Chinese importers at the expo cannot guarantee the quality of their wine. Second, many Chinese wine distributors have no related experience in international trade, long-term branding planning for wine or full understanding of the close relations between wine quality and a stable supply chain. They choose certain wine just because of its low price.

In addition, high-end Chilean wine does not have a large share in the Chinese market as Chinese consumers generally consider Chilean wine as cheap and would choose expensive high-end brands from other countries instead of Chile. Chilean wine dealers and Chinese importers fail to make profits through high-end wine. As a result, they decide to boost sales by selling medium and low-priced wine.

### **2.5 Some Upstream Chilean Wine Enterprises Only focusing On Immediate Interests**

According to the research, there are some small and interest-orientated upstream enterprises in the Chilean wine market. These enterprises do not have their own wineries and only have two to three employees, yet they export wine to the Chinese market and the annual volume even reaches over 200 standard containers.

These Chilean trade enterprises would sign contract with the Chinese dealers and provide them with the designated products by purchasing the unbottled wine from Chilean wineries at a low price and selling it to China in bottled or bulk form at a low price.

As the Chilean enterprises have no stable wine supply chain, they cannot control the wine quality.

As a result, the quality of the exported wine varies greatly and some inferior products are even exported.

In addition, due to changes in the international market over the past few years, the Peso exchange rate has dropped, which has made Chilean products more competitive in the international market. At the same time, small Chilean wine traders reacted more rapidly to changes in the market than their larger counterparts. They reduced the price of wine over and over again to sign contracts with the Chinese importers. With these short-sighted behaviors, wine traders cannot guarantee the origin and quality of their wine.

**2.6 OEM without Sufficient Management and Control**

Many large scale Chilean wineries are doing OEM, some small wineries do business with limited production. Many wineries produce and design different categories for customers and allow customers to design their own wine labels. For example, Concha y Toro has many categories such as Casillero Del Diablo, Frontera and so on. This is probably because of the Chinese importers who hope to become the exclusive agents in China. In order to boost export and sales and to meet the demand of the importers, many large scale Chilean wineries outsource the production of some of their categories to small wineries. However, large wineries cannot manage and control the quality of the wine produced this way.

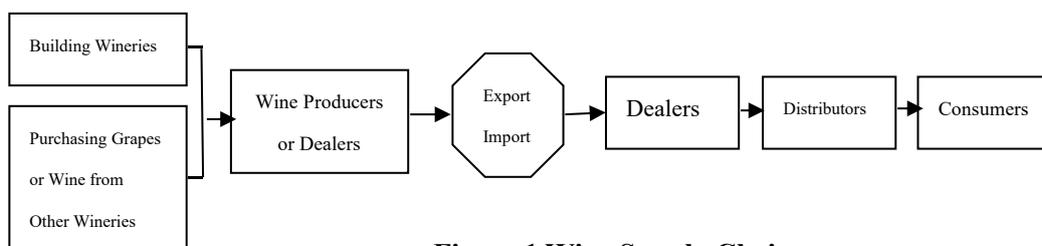
**3. ANALYSIS AND SUGGESTION**

This paper will analyze the problems from the perspective of supply chain management.

Supply chain is based on customer needs, with the objective of improving quality and efficiency. By integrating resources, it can help achieve a synergy of product design, procurement, production, sales and service. A supply chain is the organic whole formed by the node enterprises focusing on their respective core competitive advantages.

Through capital management or technology means, the core enterprises in the supply chain integrate upstream and downstream enterprises, effectively control key processes, and ultimately form a complete supply chain system. The core enterprises would play a dominant role in terms of pricing and sales in the industry and in the market in order to maximize the value of the supply chain, the interest of the enterprises in the supply chain and the interest of customers.

Supply chain operation and management focus on giving full play to the core competitiveness of all enterprises in the chain and creating the overall competitive advantage. Enterprises engaged in supply chain management and operation would conduct specialized division of labor and outsourcing for greater core competitiveness, faster response to the market and lower operation cost for their non-core businesses. The wine supply chain is shown in **Figure 1**.



**Figure 1 Wine Supply Chain**

**3.1 Analysis of Preferences of Wine Consumers**

In the building and management of the channels of supply and sales in the supply chain, it is important to first understand and satisfy the demand of the consumers around the world, because most consumers would only buy certain wines when they have a full understanding of the wine and want to taste it. Many wine agents focus on distribution and assume that their mission is accomplished the moment when they sell the wine to the distributors. However, they fail to recognize and meet the real demand of consumers due to a lack of communication with the consumers.

*3.1.1 Literature Review on Wine Consumers*

Sanchez and Gil (1998) built a 4-stage model for

the decision-making of wine consumers. That is to say, the decision-making process for wine can be divided into demand recognition, information searching, evaluation of the goods to be purchased and final choice. The model specifies the decision-making process of wine consumers and identifies what wine consumers would take into account at each stage. In demand; recognition, consumption motivation and consumption scenarios are considered, because consumers' needs and motivations vary under different scenarios. During the information searching, the focus is on the importance of wine consumption (or the extent of involvement) and the search of

information on the internal and external clues of wine products. The third stage is the study on consumer preferences of wine products and the evaluation of the quality and features of wine (variety, category, brand, country of origin, awards and other related information). The fourth stage focuses on the description of the purchase behavior of consumers, such as purchase volume, location, frequency and so on.

Famularo et al. (2010) found through research that wine consumers often judge wine quality based on their knowledge of wine and their previous consumption experience. Consumers' wine knowledge is consistent with their involvement in wine products; greater involvement means greater knowledge about wine; knowledge of the origin of wine plays a positive role in the decision-making of wine consumers.

In traditional wine-consuming countries such as Italy and France, people drink wine almost every day, including at regular meals, as it has become a habit. However, in emerging wine-consuming countries such as Ireland and China, people drink wine less frequently and only purchase and drink wine during festivals, parties or grand ceremonies. Farren (2003) and Quinton and Harridge-March (2003) also found through research that the Irish wine market is changing, with more abundant supply of wine in the market, more affordable price and more types of wine to choose from. The content of the wine label is concise and easy to understand while purchase is also becoming more and more convenient. Wines are being transformed from luxuries to everyday consumer goods that more people can buy and drink.

However, in mainland China, an emerging wine-consuming region, consumers have very limited wine knowledge in general. Most consumers only have some basic knowledge about the classification of wine products and only a few wine professionals have some wine expertise (for example, the reading of wine labels, the description of tasting, the pairing of wine and food, wine regions, etc.).

Elodie Moreau (2011a, 2011b) conducted research on the wine consumption behavior of the citizens in first-tier cities such as Shanghai, Beijing, Guangzhou, Suzhou and Hangzhou. The result showed that consumers in the first-tier cities are most concerned about brand name, popularity of the wine type and wine origin when they buy wine. In general, consumers pay more attention to the attributes unrelated to the product (alcoholicity, the pairing of food and wine, grape variety, aroma, sweetness, etc.) than the attributes related to the product (trademark, brand name, brand feature, popularity of the wine type, origin, etc.). Elodie

Moreau believes that consumers in Chinese first-tier cities are in extreme pursuit of brand products and have poor knowledge of imported wines. In addition, by comparing consumer behaviors under different scenarios, Elodie Moreau suggests that consumers in Chinese first-tier cities do not want to lose face, so they tend to buy famous international brands from well-known wine regions and are willing to pay premium for such wines.

### 3.1.2 Case Study

#### 3.1.2.1 Factors Influencing the Purchase of Chilean Wine

Product quality has a significant impact on the purchase intention and purchase behavior. Purchase intention is mainly influenced by internal factors (such as the taste of the wine) while purchase behavior is influenced by both internal factors (taste and origin) and external ones (brand, label and price).

The research group conducted research on some of the consumers in Guangdong province, allowing respondents to select multiple influence factors and carried out an analysis of the valid research data (200 questionnaires sent and 162 valid ones received). The result shows that the main factors consumers consider when purchasing wines and their respective share are as follows: taste (73%), price (69%) and brand (56%). The result is consistent with the market performance of Chilean wine: good taste and low price are the main reasons why local consumers buy Chilean wine.

#### 3.1.2.2 Prediction of Chilean Wine Sales in Guangdong Province

In this paper, Equation (1) is achieved by applying a fitted linear regression to identify the relationship between the logarithm of Guangdong's total wine import volume from Chile from 2004 to 2016 (JKZL) (unit: liter) and time T (1 stands for the year 2004). Equation (1) is again used to estimate the total amount of imported Chilean wine in the future. STATA is used for regression estimate and the result shows that the equation has a high degree of fitting. The estimated result of the the equation is shown as (1).

$$\text{LN}(\text{JKZL}_i) = 8.336 + 0.0092 * T \quad (1)$$

(t=392.6)      (t=84.3)

$$R^2 = 0.996 \quad F = 7107$$

In Equation (1), i represents the year of 2004, 2005..., 2016 while T represents 1, 2..., 13.

A conclusion can be drawn from the prediction of (1): empirically, under the condition of the

existing satisfaction of the Guangdong Consumers towards Chilean wine, the demand for Chilean wine in the Guangdong market shows an upward trend.

3.1.2.3 Import Demand for Chilean Wine

The Rotterdam model was proposed by Theil (1965) and Barten (1969), which assumes that the share of the marginal expenditure of the model and the price substitution parameter represented by  $\theta_i$  and  $\pi_{ij}$  are constants. The model can reasonably estimate expenditure elasticity and price elasticity of the demand under the condition that the number of samples is not ideal. The Rotterdam model is shown as (2).

$$\tilde{W}_{it} \Delta q_{it} = c_i + \theta_i \Delta Q_t + \sum_{j=1}^n \pi_{ij} \Delta p_{it} + \varepsilon_{it} \tag{2}$$

In Equation (2),  $i, j=1, 2, 3, \dots, n$ , while  $W_i$  represents the proportion of a country's wine import amount from country  $i$  to its total import amount.  $q_{it}$  represents the quantity of the imported wine (litre) from country  $i$  at the year of  $t$ .  $p_{it}$  represents the average price of the imported wine from country  $i$  at the year of  $t$  while  $n$  represents the number of country of

origin.  $\Delta q_{it}$  stands for the growth rate of China's wine import volume from country  $i$  at the year of  $t$  to that at the year of  $t-1$ .  $\Delta p_{it}$  stands for the growth rate of the import price.  $\Delta q_t = \ln q_t - \ln q_{t-1}$ ,  $\Delta p_t = \ln p_t - \ln p_{t-1}$ ,  $\tilde{w}_{it} = 0.5 (w_{it} - w_{it-1})$  and

$$\Delta Q_t = \sum_{i=1}^n \tilde{w}_{it} (\ln q_{it} - \ln q_{it-1}) . \theta_i \text{ is country } i\text{'s share of marginal expenditure of wine import and } \theta_i = \partial(p_i q_i) / \partial \sum_{i=1}^n p_i q_i . \pi_{ij} \text{ stands for price coefficient and is used to measure the impact of country } i\text{'s wine import price on its import volume. } \varepsilon_{it} \text{ stands for randomly and normally distributed error and } c_i \text{ represents constant term.}$$

According to Equation (2), expenditure elasticity  $\eta_i = \theta_i / \tilde{w}_i$  and the Slutsky compensated price elasticity is  $\pi_{ij} / \tilde{w}_{ij}$ .

This paper uses data about imported wine from the top countries of origin for China from 2004 to 2016: France, Australia, Chile, the United States and Italy. STATA is used for seemingly unrelated regressions estimate. The estimated results are shown in **Table 1**.

**Table1 Estimated Result of Equation (2)**

Country	Constant Term ( $c_i$ )	Share of the Marginal Expenditure ( $\theta_i$ )	Slutsky compensated price elasticity ( $\pi_{ij} / \tilde{w}_{ij}$ )			
			Chile	Australia	Italy	The U.S.
Chile	0.013** (3.2657)	0.1268** (3.1425)	-0.1486** (-2.3670)	0.2547*** (2.3782)	0.1264** (2.1520)	0.1154** (3.3720)

Note: the data in brackets are the t test results, \*\*\* means Sig<0.01, \*\* means Sig<0.05.

It can be found from the estimated result in **Table 1**,

(1) The "Chile" equation's constant term is 0.013 and reaches the significant level of 10%, which shows that on China's market of imported wine, the consumption of imported wine is affected not only by the price but also by consumption preference and consumption expenditure. The constant term is positive, indicating that Chinese consumers have consumption preference for wines from Chile and the preference has a tendency of being gradually strengthened..

(2) The share of the marginal expenditure is positive and reaches the significant level of 10%, indicating that for every 1% increase of the total budget of Chinese wine consumers, the share of

the budget for consumption of imported Chilean wine will increase by 0.13%.

(3) Slutsky compensated price elasticity shows that Chile's own price elasticity has a significant impact on China's import demand of wine. Chile's own price elasticity is -0.15 and reaches the significant level of 10%, showing that for every 1% of increase in Chilean wine price, China's wine import from Chile will decrease by 0.15%; In addition, the cross-price elasticity shown by the Slutsky coefficient shows that there is great cross elasticity between China's import demand for Australian wine and the import price of Chilean wine. The cross-price elasticity is positive 0.25, indicating that in the Chinese wine market Chile wines are competitive substitutes to Australian

ones. This is probably because China is imposing import tariff reduction to both countries. In particular, Chile's tariff dropped to zero in 2015. Cheap price plus tariff reduction and exemption makes Chilean wine more attractive

At the same time, Italian and American wine can also be easily replaced by Chilean wine probably due to the fact that the mass consumers have become the mainstream consumers in the wine industry, with middle-to-low-end products and cheap wine being more popular among the general public.

**3.2 Division and Collaboration of the Wine Supply Chain**

*3.2.1 Operation and Management Model of the Supply Chain*

For the wine industry, the core enterprises in the supply chain will be able to penetrate into the wine production base at the upstream level, control logistics and sales channels in the middle and attract consumers at the downstream level, with the purpose of stabilizing product quality, controlling logistics costs, reducing overall damage, streamlining distribution processes and improving consumer experience.

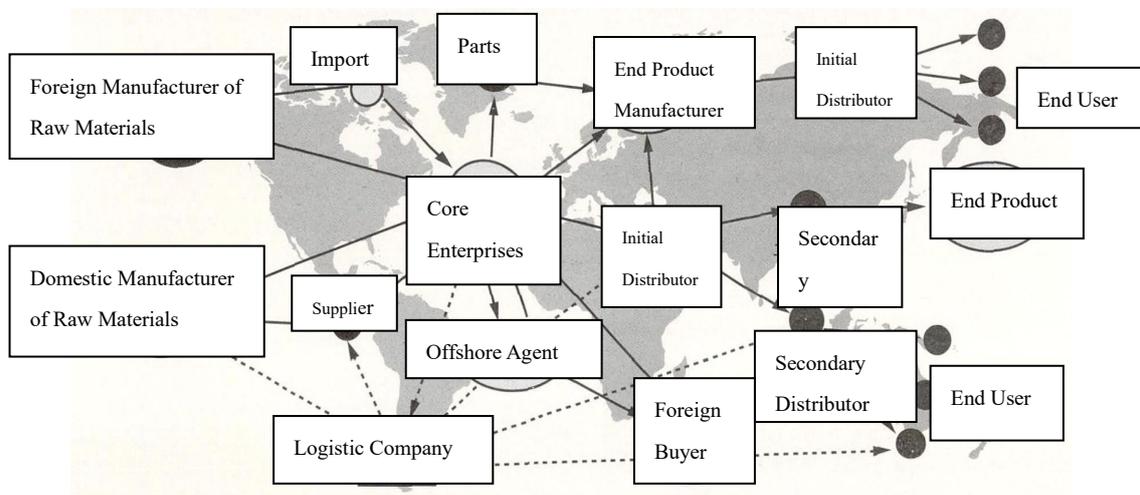
Take logistics as an example, on the one hand, a number of wine producers operate their own logistics. As a result, logistics services are barely open to the whole society and are poorly specialized, which leads to in a lot of repeated construction and wasted resources. the other hand, extensive management and inadequate types of logistic products lead to poor growth quality of the logistics industry and the high proportion logistics cost in GDP in the long-term. Therefore, in dealing with the relationship between wine production and distribution, we should break the industry boundaries between them, further deepen the division of the industry and realize the

penetration and integration among sectors. From the perspective of supply chain optimization, the processes that lack cost advantage, inefficiency and consume a lot of enterprise resources should be redefine themselves through the supply chain system to reduce cost and boost efficiency.

Wine distribution enterprises should proactively undertake the value chain activities of the wine producers, make full use of their own competitive resources so as to play a more active and important role in logistics, assembly, manufacturing, procurement and distribution. No matter in wine production or distribution, the competitive advantage should be gained through the integrated operation of the supply chain system in the future, rather than working hard alone.

*3.2.2 Global Extension of the Supply Chain*

Wine enterprises should be aimed at building a globalized supply chain, combine market expansion with capital operation and technology expansion, promote the global procurement and distribution of domestic wine enterprises, further diversify the sources and channels that provide effective and quality supply and cope with consumption upgrading and meet the quality demand as a global wine company. See **Figure 2**. Globalization is the only way for Chinese enterprises to deeply integrate into the world economy and create international brands. It is also an important way to expand the sources of quality supply and achieve the goal of the supply-side reform. Global operation has always been the shortcoming of Chinese enterprises. The TNI, Transnationality Index by UNCTAD has been used to measure Chinese enterprises and the result shows that at present, there are only a few enterprises in China whose TNI is above 20%.



**Figure2 Globalized Supply Chain**

Figure 2 is a simulation model of the global supply chain, which shows that the upstream and

downstream division of labor for a core enterprise can be distributed all over the world. Under the global supply chain system, cross-border trade can be involved in every aspect, from the procurement of raw materials to the sales of final products. Therefore, in the practice of international trade, supply chain management has become an important way for transnational corporations or international enterprises to make full use of the comparative advantages of the countries and regions, foster their competitive advantages and enhance their international competitiveness.

In the global extension of the supply chain, wine enterprises should pay attention to the following three aspects: First, they need to promote the transformation of business philosophy, innovate management mechanism, provide a new engine driving trade efficiency and break free from institutional constraints. Second, they should pay attention to the management of sales channels. The competition between modern enterprises, to a large extent, depends on whether they have effective control over their sales channels, which also reflects the core competitiveness of enterprises in terms of supply chain management. Some Chinese enterprises that have fully realized this actively, learned from enterprises in developed countries that have gradually extended themselves to the downstream of the industrial chain and have established their own international sales channels. Third, they should pay attention to the coordination of interests of all enterprises in the supply chain. For example, both the core enterprises and suppliers in the supply chain must operate in a coordinated manner and foster a strategic cooperation so as to achieve a satisfactory supply chain partnership. The way enterprises joining competition and cooperation in the international trade shows that, to gain advantages in global competition, enterprises need not just industrialize competitiveness but also optimize the efficiency of their industrial organization, that is, assure an efficient supply chain management system.

### 3.3 Suggestions for Problems

Therefore, based on the analysis from the perspective of supply chain management, the domestic Chilean wine enterprises and the government should endeavor to resolve the following problems in order to seize opportunities for future development:

#### 3.3.1 Carry out Detailed Market Research

Based on the social and economic development stages, the consumption and the social and cultural environment in various regions of China, this paper analyzes the features of wine consumers' demand and proposes targeted

marketing strategies.

#### 3.3.2 Foster Brand Awareness and the Collaborative Spirit of Agreements

Enterprises should provide quality goods and services and operate in an honest manner, shape the brand image of China's distribution enterprises and strictly avoid inferior supply or dishonesty.

#### 3.3.4 Optimize Logistics Systems, Reduce Product Costs and Enhance Commodities' Price Competitiveness

The integrated supply chain operation to reduce the cost of imported wine is an important trend in the future. In international and domestic logistics operation, wine enterprises should embrace multi-modal transport and diversified modes of transport and delivery so as to reduce product costs.

#### 3.3.5 Foreign Direct Investment

In order to better access the local market, wine enterprises should actively conduct strategic research on direct investment in Chile. The major investment areas should be ones related to wine production and distribution, namely, the upstream and downstream industries and their related industries in the wine industry for the procurement and distribution in the global supply chain and for the supply-side reform in the domestic market. In terms of the specific areas of investment, competitive wine enterprises can invest in local logistics infrastructure to break the circulation barriers for long-term benefits, achieve effective extension to the upstream and downstream of the industrial chain in the circulation and ultimately the overall competitiveness of the supply chain. In addition, enterprises can also directly invest in local distribution-related enterprises, such as retailing, wholesale and logistics ones and achieve the strategic goal of investment for the market through flexible equity participation, holding or merger and acquisition of local physical circulation enterprises or e-commerce platforms.

In addition, wine enterprises also need to optimize the production factors in international supply chain, increase investment in capital, talent, technical means and management systems, actively participate in competition in overseas markets and create international wine brands.

Chile has explicitly stated on different occasions that it welcomes the participation of Chinese enterprises in its logistics development and infrastructure construction. Chinese enterprises have rich experience and considerable strength and financing ability in this field. China-Chile cooperation in this area enjoys great potential. Based on their own interests and international development strategies, Chinese enterprises can

take an active part in and grasp the opportunities in Chile's logistics development. They can start with the more direct infrastructure construction and then expand to the entire logistics industry including investment in modern warehousing and distribution, export of logistics and communications Information technology and the establishment of a complete logistics chain. In particular, agricultural cooperation and logistics investment cooperation can be combined for overall advantages. However, no matter what stages enterprises are at, they should deal with it calmly, carry out in-depth studies in the market, carefully assess specific projects and take precautions against various kinds of risks.

### *3.3.6 Greater Openness and Cooperation in Supply Chain Management*

Enterprises should learn from the operation mode of the advanced global supply chain management and comprehensively enhance its outsourcing, channels, brand, standard, logistics and e-commerce. They should gradually develop themselves as the contract-issuing party of the Chilean wine industry chain and adopt merger and acquisition, new establishments, alliance and service contract so as to strengthen their marketing and sales in transnational operations, approach consumers more quickly, respond to the market rapidly and cultivate their competitive advantages.

Multiple cooperation measures should be taken at the same time and different business patterns should be adopted at different stages and in different situations.

At the initial stage of cooperation, the main patterns include joint venture, cooperation, equity participation, and Chilean enterprises holding shares in Chinese-owned enterprises so as to participate in the operation and profit allocation of the local enterprises. Cooperation fields include technology, branding, project and product. The Cooperation objective is to familiarize with resources, markets, channels, consumer behaviors and law and establish a good social network. When the conditions are ripe, enterprises should consider repurchasing the shares or developing the market as a wholly-owned enterprise. The cooperation partners mainly are local Chilean enterprises, especially the Chinese immigrants or Chinese enterprises that have certain economic strength in Chile. During the building of the joint venture and cooperation, the Chinese-funded enterprises should make greater use of the local production, technology and management personnel, develop tangible asset and improve China's native varieties as well as supporting technologies for production, such as the

cooperation between Changyu Wine Group and the Chilean wine industry.

Enterprises should act in a timely way, adopting the merger and acquisition strategies of the Chilean enterprises. The merger and acquisition of Chilean companies, enterprises or international agricultural trading companies are the quickest and most efficient way to promote agricultural cooperation between China and Chile. In terms of merger and acquisition, various forms can be adopted, such as overall acquisition, restructuring of holdings, capital increase and stock acquisition. M & A should be focused on the core enterprise or companies at the key juncture of the wine agriculture industry chain. M & A should be aimed at helping enterprises to quickly capture the market, expand the scale of the operation, avoid competition with rivals in the industry and make full use of the existing brands for the Chinese wine enterprises to create profits such as the cooperation between Lenovo Group and the Chilean agricultural enterprises.

In addition, enterprises should endeavor to enhance the coordination of the industrial chain. Operation philosophy of the industrial chain should be followed to step up the planning of the major cooperation areas and construction projects with Chile, attract the upstream and downstream Chinese enterprises to follow up together and jointly develop the Chinese and Chilean market to form an industrial synergy to maximize the value of the wine industry chain. With the upgrading of the food consumption of the Chinese people, agricultural products industry and the severe situation of food safety, China Oil And Foodstuffs Corporation (COFCO) has proposed and is implementing an international development model in the entire industrial chain, that is, the extension to the upstream and downstream of the industrial chain and the integration of raw material supply, processing, production, warehousing, transportation, product sales and brand promotion into the economic management model within the enterprises.

### *3.3.7 Build New Logistics Channels*

The Chinese government should encourage Chinese enterprises to improve the current logistics pattern for agricultural trade between South America and China so as to create a new logistics channels for multinational grain merchants that are not subject to laws of developed countries. For example, the government should support domestic enterprises in investing in and building logistics infrastructure in South America and in creating large-scale ocean fleet so as to directly connect the South American market and the Chinese market.

China should step up its agricultural cooperation with South American countries and gradually establish a direct channel between the country of origin and the consumption market. This will boost China-South America agricultural cooperation and is an important way to protect the well-being of people in China and South American countries and promote common economic development.

#### *3.3.8 Establish a Domestic Policy System That Supports the Innovation of Supply Chain Management*

To enhance supply chain management, a mechanism should be built to coordinate industrial, regional, trade and financial policies. Work should be done to identify and manage the foreign trade enterprises that implement supply chain management. Favorable policies and support should be given to these enterprises just like high-tech enterprises and modern service industry in terms of tax system, financing, personnel and foreign cooperation.

## 4. CONCLUSION

It can be seen that China's market of imported wine from Chile still enjoys great potential. This trend is proved by the rapid development of the market. The market is bound to undergo twists and turns as it is maturing. For example, currently the Chinese consumers have limited knowledge about wine. To begin with, they do not understand the pricing of the product. Moreover, they do not know how to identify quality wine and fail to distinguish the good from the bad. Therefore, it is important to raise consumers' knowledge about imported wine, which will allow consumers to accurately identify quality wine and inferior wine and help quality wine to gain a toehold in the market.

However, the market is gradually enjoying more rational development while improving market rules and regulations at the same time. Although at this stage in China, there are already some Chilean wines that have been defined as high-end products, yet the majority of the Chilean wines are low-end and popular products. Therefore, the positioning of Chilean wines in China and other international consumer markets at this stage is accurate, that is, cost-effective products, or products for consumers in developing countries. However, in the long run, if Chilean wine enterprises want to be competitive in this market, they must strengthen the operation and management of the wine supply chain to enhance their competitiveness in all aspects.

Chile is China's major trading partner and an important strategic partner in Latin America. The

research team believes that in order to promote long-term, stable and healthy economic and trade cooperation between China and Chile, Chile's industrial policies have undergone some changes since 2000 as policies to promote the development of the service sector and a national innovation system were adopted. These show that the Chilean government is actively searching for new industrial opportunities. The industrial policy has gradually been shifted from horizontal to vertical with policy support given to boost technology and innovation and a Chilean system full of national characteristics formed to promote innovation. At the same time, the Chinese market is also deepening reform, actively cultivating a national innovation system and vigorously encouraging "mass entrepreneurship and innovation". Therefore, in the process of economic cooperation between China and Chile, we must pay attention to the following aspects:

Firstly, enterprises should be as the major player and the matching of industries should be carried out. Based on the current status of the Chile's industry and the market share of China's export products, both parties should improve the investment environment, formulate preferential policies and build service platforms so as to allow Chilean enterprises to invest in China and Chinese enterprises to invest in Chile.

Secondly, supply chain management impediments, which have become an important means in international trade for multinational corporations or international enterprises, must make full use of the comparative advantages of various countries and regions, foster their competitive advantages and enhance their international competitiveness. In the course of implementing supply chain management, the Chinese and Chilean enterprises should pay attention to coordinating the interests of all enterprises in the supply chain.

Thirdly, it is necessary for Chilean wine companies to promote cooperation in production region and industrial integration. Wine enterprises should look beyond the traditional fields of cultivation, brewing and marketing. They should actively extend the industrial chain, integrate various factors and promote the integrated development of the industry.

In short, the relations between China and Chile have entered into a new development stage. The Chinese government attaches great importance to China-Chile relations. The two sides are both important players in and great supporters for the new type of strategic partnership between China and Chile. At the same time, the two sides need to look beyond and uphold the strategic interests in the globalized world and expand room for

development.

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