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Business Proposal: CA Wine Trading Co.

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Executive Summary

An evaluation of the Chinese wine market illustrates an explosive and consistent growth. The expansion of the wine markets entails a growing middle class who are willing to spend their income on imported products. Besides, the crackdown on corrupt individuals has shifted the consumption of the upper class and government officials from premium products to avoid lifestyle exposure to the government. The market factors in China are a support of growth and sustainability of entrant firms into the industry. Therefore, the establishment of CA Wine Trading Co. seeks to avail cheap wines from California to the Chinese consumers in cities and major towns. It will capitalize on low pricing, the expanding middle-class, the absence of adequate quality wine, and familiarity of the Chinese consumers with American wines. As a result, CA Wine Trading Co. will be a \$2.5 million investment base in California, but with agents and distribution centers in Chinese cities and towns.

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Statement of Need

Reuters (2017) reported that the Chinese wine market is growing exponentially. The 40% annual market expansion will make China the second largest wine consumer in the world by 2020. As a result, its revenues will sum to \$22 billion, which will be far below the United States, generating \$39 billion as forecasted through 12% annual market growth. Nonetheless, China will overtake countries such as France, Germany, and Italy from its fifth position in global wine consumption. Reuters (2017) further indicates that the volume consumed will increase with the expanding middle class in the country. The active purchasing of wine will increase due to extensive crackdown on corruption that inhibits the provision of business gifts (Lockett, 2016). Therefore, the consumers will have to purchase their favorite brands from the free markets that are supported by the surging online sales in the cities and major towns.

The misconception about the Chinese is gradually fading with the intensification of interaction and globalization. Radic (2017) opines that the Chinese are consumers of wine as opposed to the previous propositions that they cordon any form of alcoholism. He indicates that the millionaires in China are beaucoup who are willing to spend more than \$300 on a wine bottle. Meanwhile, the liberalization of the economy makes it appear like it is emerging from the doldrums. As a result, the Chinese wine uptake behaviors illustrate an upswing with rising per capita consumption. For instance, in cities such as Shanghai and Beijing, the residents are accustomed to holding parties in their homes where they serve wine. Moreover, the myth describing China as a patriarchal society is winding out with the rise of independent and working-class women who perceive sparkling wines as part of their lifestyle. In this view, wine business across China is a booming enterprise that can support the sustainability of existing and entrant firms.

According to Rieger (2015), the imported wine in China from 2003 to 2013 grew by more than 600% where liter consumed per year rose from 600,000 to 31 million. The figures indicate that the annual growth rate for importation averaged at 60%. Although the growth in 2014 and 2015 fluctuated due to government policies, Handley (2017) notes that China recorded a 15% increase in the importation of 638 million liters of wine valued at \$2.4 billion. Verot (2017) attributes the expansion of the market for foreign wines to 1% annual decline of local production. It is evident that consumers are shifting from the traditional Chinese alcohol baijiu to the uptake of imported wines, such as Gallo Family Vineyards from the United States, Lafite from France and Suntory Yamazaki from Japan (Verot, 2017c). Therefore, the local wineries dominate 70% market share, but the increasing availability of imported products is diluting the control.

Reuters (2017) acknowledges that China will have to import 94.5 million nine-liter cases by 2020 to meet the local demand. The 80% expansion of imports will require the formulation of new firms in the business. In this view, the establishment of CA Wine Trading Co. to export wine from California will provide the Chinese consumers with quality products throughout the year. It will further assist in meeting the local demand for the American wine. Therefore, market factors in China support the establishment, growth, and sustainability of CA Wine Trading Co. to meet the expectations of upper and the developing working classes.

Goals and Objectives

Verot (2017b) indicates that China consumes more than 12 billion liters of wine per year. However, the local production areas at Ningxia, Shanxi, and Xinjiang are only conducive during summer, but unreliable during autumn due to low temperatures. As a result, the cultivation of mature vines with good sugar content that meets local demand is unattainable. The vine-growers

harvest their produce before maturity to avoid harsh weather in autumn meaning the quality of generated wines is poor. Elsewhere, the farmers who bury the vines during low temperatures and wait for maturity are few, meaning that their supply cannot suffice wine demand in the market. From the challenges facing production of wine in China, CA Wine Trading Co. has a primary goal to avail quality wines from California to the Chinese consumers continuously.

The market for foreign wines in China is expanding gradually. Therefore, CA Wine Trading Co. will attain the primary objective by aiming:

- To become the preferred distributor of quality wines from California
- To lower distribution cost for the provision of products at competitive prices
- To cooperate with local distributors in China who stock and ensure supply is consistent.
- To ensure all secondary cities in China have distribution centers and agents for active services to the middle-class income earners who are distributed throughout the country.

Implementation

Reuters (2016) reported that the fight against corruption in China is gaining crushing momentum. President Xi Jinping has been tireless to attenuate corruption in the country since he assumed power in 2012. The pursuit has led to the jailing of high-profile government officials who have been found culpable of propagating grafts. As a result, provision of gifts such as expensive wines to the government officials has declined as it is perceived as a form of bribery. Besides, the government officials have reduced their luxurious expenditures on partying, wines, and sports cars. It means that consumption of premium wines is facing a decline due to the unwillingness of the upper class to acquire them and expose themselves to the government. Nonetheless, the economy is proliferating leading to exponential growth of the middle class in the country. In consideration of declining expenditure on premium products and expanding the

middle class in the economy, CA Wine Trading Co. will distribute relatively cheap wines to the Chinese market. For all the goods sourced in California and shipped to China, they will retail for prices ranging from \$5 to \$20 to ensure an average person can afford them regularly.

The management of CA Wine Trading Co. seeks to commence operations by locating suitable distributors. The firm will acquire proper compliance in California to handle and transact a business involving alcoholic drinks. However, the number of permits will be relatively few as the firm will only operate a warehouse and open office without a point of sale. In this view, CA Wine Trading Co. will seek for permits, licenses, and compliance with the state's requirements for labor, insurance, workplace, health, and safety. All the approval with legal and ethical bodies will be completed by the end of October 2017 to allow procurement of equipment and premise.

Initially, CA Wine Trading Co. will require a license to operate a warehouse where most of the activities will take place. It will entail stock management systems, loading machinery, clerical staff, and offloading equipment. Thus, it will hire several staff members before the acquisition of equipment and machinery. They will assist in coordination and execution of functions for a successful procurement. In this view, the hired staff will work closely with the investors to identify wine manufacturers and agents who will be supplying goods to the firm. Besides, they sign packaging agreements to ensure it meets international standards and machinery handling during loading and offloading. The preparation for warehouse, suppliers, equipment, and machinery will be ready by the end of December 2017.

Verot (2017b) indicated that Chinese consumers are familiar with American wine brands, whereas highlighted a shortage in the market for imports. In this view, CA Wine Trading Co. will visit China to identify existing business to distribute the California brands. The representative will visit different cities and towns to provide them catalogs for use in making

orders. The distributors will further be guided on how to make their orders online or through telephone calls. In the meantime, the identified merchants will be allowed to make actual orders while representatives continue to seek more agents. The ordered consignments will be delivered through flights to ensure they are received within the shortest time possible.

Budget

The total costs of setting up CA Wine Trading Co. will be \$2.5 million. The investors will raise capital from their saving and loans whereby individuals will have shares that are equivalent to their capital contribution. The capital contribution will fund the acquisition of machinery, procurement of assets, and business operations for the first one year. Table one presents the utilization of \$2.5 million in the firm's operations and functions. Meanwhile, the company will be registered a corporation to protect the corporate interests and values from shareholders' manipulation. In the event of expansion, CA Wine Trading Co. will seek additional investment from the shareholders, or they concur to incorporate new partners through mergers and purchases of shares.

Table 1: Deployment of shares in CA Wine Trading Co.

Item or Function	Amount Allocated in US dollars
Legal and Ethical Compliance	\$8,300
Premises Lease	\$240,000
Branding and Machinery Installation	\$76,000
Handling Machinery	\$117,000
Office Equipment and Stationaries	\$59,000
Website, Management System, and Maintenance	\$30,700
Salaries and Wages	\$170,000

Agency and Distributor Recruitment	\$60,000
Initial Procurement and Flight Charges	\$1,230,000
Overhead (Utility bills)	\$9,000
Total	\$2,500,000

Benefits

EU SME Centre (2011) noted that risks in China wine business were increasing due to expanding the number of imported luxury brands. The report noted that the distributors of imported wines were concentrated in Shanghai, Beijing, and Guangzhou. As a result, the growing demands of wine have been focused on only in the major cities, making distributions in towns relatively unattainable due to high prices. The establishment of CA Wine Trading Co. will benefit a large number of wine lovers who are not residing in the major cities. Besides, the firm will distribute products of lower prices but higher quality to ensure the middle-class population that could not afford premium wine regularly have an alternative.

The majority of wines in China are prepared from immature fruits, making them low quality. Therefore, the emergence of CA Wine Trading Co. in the market will provide an opportunity for the Chinese to enjoy high-quality wines from California. As a result, the firm will promote California exports leading to an expanded market for local products. The manufacturers, distributors, and vine growers will enjoy higher returns from the expanded and assured market abroad. The establishment will further enable the state to generate foreign income in addition to direct and indirect employment. Therefore, the formulation of CA Wine Trading Co. in California will provide its economy with diverse benefits

Evaluation

CA Wine Trading Co. will have several approaches to assess its performance in the market. First, it will conduct consumer surveys in China, requiring the distributors to provide the performance overview of its products. Appendix A presents the questionnaire that will be frequently presented to the distributors. The firm will analyze them to determine consumers' preference while evaluating how its product match the expectations. Second, the firm will conduct performance evaluation for the employees to ensure they are providing the required results in their execution of the job specification. The performance evaluation will be regular at specified intervals to ensure the workforce is consistently productive. Finally, the business will have a market performance plan that will facilitate evaluation of actual achievements against expectations. As a result, the business will adjust its market operations to attain the organizational objectives.

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Appendices

Appendix A

Questionnaire

1. Are the orders delivered in time and in the right quantities? (please tick one answer)

Yes

No

2. Are the customers happy with the quality of wines? (please tick one answer)

Yes

No

3. Do the wines from CA Wine Trading Co provide adequate profits?

Yes

No

4. Are you willing to continue marketing and distributing our products?

Yes

No

5. Which brands are doing well in the market? (List at least three)

a. _____

b. _____

c. _____

d. _____

e. _____

6. Provide Suggestion on how to improve customer relation.

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