“This paper is written as a part of the undergraduate program at BI Norwegian School of Management. This does not entail that BI Norwegian School of Management has cleared the methods applied, the results presented, nor the conclusions drawn.”
Introduction

This diploma thesis has been written in cooperation with Heavy Water International.

The process of making the diploma thesis has given us valuable educational experience. We have gained a great deal of insight in the areas that we have examined, especially on how to choose a preferable way to enter China, on how to choose the most suitable distributor, and create a marketing strategy for the Shanghai market.

Shanghai, June 2008

________________________                                   ________________________
Arill Storås       Kristoffer Sandbu

________________________                                   ________________________
Sandra Kristine Eriksen     Frode Isene
Acknowledgements

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First and foremost, we would like to thank our supervisor Karin Bryntse for the great support and competence she has provided us with during the making of this thesis.

Secondly, a special thanks to Pål-Andrè Pedersen, CEO of Heavy Water International, for his assistance in providing us with valuable information.

Finally we would like to thank the individuals that shared their information, experience and knowledge with us through interviews, making this diploma thesis possible.
Executive Summary

This thesis presents the findings from an explorative research study of the Chinese vodka market. The research has been conducted on behalf of Heavy Water International, a Norwegian vodka producer. Heavy Water International believes that the vodka market in China has considerable growth potential the next 5-10 years, and wants to enter the Chinese vodka market within 2008. Their first goal is to establish a good distributor-connection and create brand awareness. Heavy Water International’s selected target cities are Shanghai, Beijing, and Hong Kong, but the author’s limited resources required us to concentrate the research in the Shanghai market.

Structure

This thesis is divided in nine chapters. The first chapter is the introduction chapter where Heavy Water International and the research aim are presented, followed by the research methodology. This chapter, (second Chapter) explains the particular methodology that we have used, and why we have used it in this thesis. The third chapter is the theory chapter, which explains the motivation behind the theory and models used. In the fourth chapter we present all the relevant data that has already been written by other authors about this subject. The fifth chapter presents our primary data findings collected from our in depth interviews. In the sixth chapter we present our strategic analysis. In this part we use the primary and secondary data to analyze the internal and external factors of Heavy Water International and the Chinese vodka market. This is followed by the marketing mix, and a SWOT-analysis to analyze our findings and weigh them to find their importance. After the SWOT-analysis we have defined a strategic problem definition, short and long term goals as a foundation for critical success factors for Heavy Water International. In the seventh chapter we come with a conclusion and a recommendation that answers our strategic problem definition. The references are compiled in chapter eight followed by chapter nine which is the appendix.
Findings

The findings in this thesis indicate a growing Chinese vodka market in the future. According to our findings vodka based drinks will become more popular, as the younger Chinese generation (25-35) are adapting to western drinking trends faster than the older generation.

The common belief that westerners are the trendsetters and, opinion leaders that the Chinese follow, is over estimated. Our findings suggest that the Chinese prefer to see themselves as opinion leaders, and feel that they are the focus. Locally respected Chinese should play a role in Heavy Water Internationals marketing strategy.

Our findings told us that high price symbolize high quality for the Chinese consumer, and that they are generally eager to show off their wealth by having expensive bottles and fireworks at their tables.

Heavy Water International should plan a brand launch event when entering the Shanghai market. We also recommend them to have one event party every month to keep interest for the brand peaked. By arranging event parties together with other famous luxury brands, Heavy Water Vodka may further strengthen their luxury brand status.

Our research shows that the following places are particularly suited for Heavy Water Vodkas high-end profile:

- The exclusive bars, clubs, hotels and restaurants in downtown Pudong, Xintiandi (French concession) and The Bund.
- Exclusive clubs (gentleman clubs, golf clubs and yacht clubs)
- Exclusive wine & spirit boutiques

The biggest weaknesses are Heavy Water Internationals lack of market knowledge, combined with their limited resources, and the fact that the Heavy Water Vodka brand is not recognized among Chinese consumers.
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Introduction
1. INTRODUCTION

1.1 Background to Research
Heavy Water International is a Norwegian vodka producer with its headquarters in Norway’s capital, Oslo. In 2005 Heavy Water International launched what they called an evolution in vodka. Their product, Heavy Water Vodka, was developed by cocktail and spirits authorities Anastatia Miller and Jared Brown. Heavy Water International use a fashion term called “couture” when positioning the brand in the categories of vodkas. This fits in between the “high” and “super” vodka brand categories. The volume target for the audience draws from both categories. This “couture” brand desires to be the “it” drink for high-end clients and consumers that are brand image aware.

Heavy Water International is planning to enter into the Chinese market within 2008. According to Pål-Andrè Pedersen, CEO of Heavy Water International, looks at the Chinese market as a long-term project. They are prepared that neither the volumes nor profit will be crucial the first 2-4 years.

Heavy Water International believes that the Vodka market in China will continue to grow in a 5-10 year perspective. Heavy Water International wants to expand to the Chinese market to build their brand in a large potential market. Their strategy is to become established in due time to get the right "entrance". The goal is to create brand awareness and establish a good distributor-connection when the market starts to develop.

These are the main reasons why they now want to enter the Chinese market, primarily through Shanghai, Beijing, and Hong Kong.

The authors of this thesis are undergraduate students on a three (3) year bachelor program with two years in Norway at BI Norwegian School of Management and the last year in Shanghai at Fudan University. The last assignment is a diploma thesis concerning a Norwegian company planning or already doing business in China. Heavy Water International asked us to do distributor and market research in the Shanghai market. This thesis aims to present the findings from the research in the Shanghai high-end market where we evaluated Heavy Water Internationals.

1 Heavy Water Vodka (sales and marketing ppt).
distributor opportunities. The aim of this thesis has also been to provide them with the most preferable marketing strategy on the Shanghai vodka market.

1.1.1 Research Aim
The aim of this thesis is to develop a marketing strategy for Heavy Water Vodka in the Shanghai-market, and to identify suitable distributors.

1.1.2 Research Objectives
In order to reach the aim of the research, the following objectives have been identified:

- Identify the most suitable entry vehicle for Heavy Water International in Shanghai
- Explore the high-end vodka market and identify the most important competitors on the Shanghai market for Heavy Water International
- Explore possible suitable distributors for Heavy Water International
- Identify opportunities for marketing in the Shanghai vodka market

1.2 Research Limitations
This thesis is written to satisfy the academic requirements determined by BI Norwegian School of Management, and to provide the sponsoring firm, Heavy Water International with valuable commercial information.

The fact that we were not employees of Heavy Water International made it difficult to gather important information from key persons, especially those representing distributor companies. Our intention was to conduct interviews with several representatives from distributor companies, but it turned out to be more difficult than expected to organize the desired interviews. This showed us how important it is with the right relations, (Guanxi) when trying to reach key persons and organize meetings with them in Shanghai, China.
1.3 Heavy Water Vodka

Heavy Water International is a Norwegian vodka producer that was founded in 2003. The company is located in Oslo, the capital city of Norway. The brand was inspired from the Norwegian “heavy water” heroes (known as the heroes from Telemark) who destroyed the heavy water nuclear plant, in Telemark, Norway and by doing so may have changed the outcome of World War II. The vodka bottle was created by a team of designers inspired by the rich heritage of Scandinavian design. The vodka is housed in glass produced by Saver in France, which highlights the flavor-neutral, high composite rod. Heavy Water Vodka is packaged in a very distinctive and unique designed bottle with a thick and rigid plastic enclosure. A rod bearing the brand name hangs inside the bottle as a reference to the use of heavy water in nuclear reactors. Heavy Water Vodka is presented as robust, balanced, refined, clean, and refreshing premium vodka with a long finish created by discerning drinkers, for discerning drinkers. Heavy Water Vodka takes its name from the rare isotope-D2O—which scientists call "heavy water." For every 6,000 parts of water, there's only one part that is heavy water." The package and design of Heavy Water Vodka is truly unique. The Scandinavian heritage and design combined with Asians sense for extra-ordinary packaging for gifts and image will be important to achieve success in the Chinese market, according to the CEO of Heavy Water International.

1.3.1 Facts and Figures

Heavy Water International was founded in 2003 by a small group of people passionate about vodka. This group included the two bar Chefs Anastatia Miller and Jared Brown, Geir Ringdal (a ship-broker) and Karl Nørstenæs – owner of several companies. The shareholders consist of Racklin, (ship-brokers from Dubai), Karl Nørstenæs, Geir Ringdal and CEO Pål-Andrè Pedersen who also started the commercial business in 2006.

Heavy Water International is co-operating with importers and distributors in every market where they are established and need a very small amount of own staff. Totally in Heavy Water International there are nine (9) employees. Out of nine (9)
employees seven (7) of them travel around on a regular basis. The total number of offices is nine (9).

Heavy Water International is active in nine (9) different countries which consists of; Norway, Sweden, Denmark, Finland, Netherlands, Spain, UK, Germany and the United States. In the United States they are established in New York, Los Angeles, and Las Vegas.

The sales numbers for the fiscal year of 2007 was 40 000 sold bottles and total turnover was EUR 200 000. The budget numbers for 2008 predict 80 000 bottles sold with an expected turnover of EUR 500 000.2

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2 Pål-Andrè Pedersen, CEO of Heavy Water International - 2008
Previous high lights from key markets

This table shows some of the markets Heavy Water International have established themselves in, and the most important highlights from these markets.

**Table 1 Previous High Lights from Key Markets**

In the future Heavy Water International is targeting India, Taiwan, China, Russia, Guatemala, and Canada as well as Miami and Chicago in the United States.

### 1.4 Production

Heavy Water Vodka is blended and bottled by J&B Nordic, at the Bloomberg estate, near Källby in southwestern Sweden, on the shore of Northern Europe’s
largest lake, Lake Vänern. It is made from Scandinavian winter wheat that is fermented and blended with water from a deep well, then continuously distilled. JJ Lidköping has 20 employees at their factory and JJ produce Svedka and local spirits for retailers in Sweden. They produce around 500 000 bottles per year.

1.4.1 Product Portfolio

- Heavy Water Vodka 700 ml is sold in Europe.
- Heavy Water Vodka 750 ml is sold in United States.

1.4.2 Retailers

Heavy Water Internationals customer group is in the “couture” segment. Heavy Water Vodka is sold in high-end restaurants, hotels, and night clubs. They are also sold through carefully chosen exclusive boutiques.

1.4.3 Brand Image of Consumers

The Heavy Water Vodka consumer is a high-end client who seeks out new products and is looking to upgrade from Stoli or Ketel One vodka. This consumer is sophisticated and seeks out perfection in everyday life. The Heavy Water Vodka consumer never waits in line and can be defined as bold, risk-taking and experimental. In addition, this consumer segment is hyper-aware of brand image and is looking to embrace a product they can call their own—as an alternative to established Ketel One and Belvedere.

Heavy Water Internationals identified segments are;

- Sport: Snowboarding where Heavy Water International work with Terje Håkonsen. (3 times half pipe World Champion).
- Fashion, Heavy Water International is doing all fashion weeks in Scandinavia and New York. They have sponsored Ed Hardy and Smet. (designer brands)
- Music: they have sponsored small sophisticated bands like "Yoga Fire" in Norway.
- Film, Heavy Water International did a HD podcast for "Entourage" and Tribeca film festival in New York.
1.5 Introduction Summary

Heavy Water International is a Norwegian vodka producer aiming to enter the Chinese market during 2008. The brand was inspired from the Norwegian “heavy water” heroes (known as the heroes from Telemark) who destroyed the heavy water nuclear plant, in Telemark, Norway and by doing so may have changed the outcome of World War II.

Heavy Water International places Heavy Water Vodka in the “couture” category, which by their definition is between the “super” and “high” vodka classifications. This classification is, according to Heavy Water International, aiming for luxury consumers who are brand familiar and wants to upgrade from Stolichnaya Vodka or Ketel One Vodka.

Heavy Water International believes that the vodka market in China will grow rapidly within five (5) to ten (10) years. Further on they believe that this will be a door opener to create brand awareness and establish good connections with a suitable distributor, when the market is starting to develop. Today Heavy Water International is established in nine (9) markets. Heavy Water International is planning on expanding to Canada, Guatemala, India, Taiwan and Russia in near future.

Pål-Andrè Pedersen is the CEO of Heavy Water International, and started his employment in 2006. Heavy Water International is owned by Geir Ringdal, Karl Nørstenes, (shipbrokers from Dubai) and Racklin, an investor management corp.

The aim of this thesis is to develop a marketing strategy for Heavy Water Vodka in the Shanghai-market, and to identify suitable distributors.
2. RESEARCH METHODOLOGY

2.1 Research Design

“If the decision maker has little knowledge about the market that is being researched, then the primary goal of the report should be to explore the market closer.”

Since we know little about the market we are doing our research on, we have chosen an explorative design. We will do this by gathering primary and secondary data. Our focus will be on creating an overview of the existing distributors and develop a marketing strategy for Heavy Water Vodka.

“A natural way to start an explorative design is to find and gather information that might have been written about the subject before (literature studies) and if there has been done studies by others on the same subject (secondary data). Often it will also be smart to conduct some forms of your own data collection (primary data).”

2.1.1 Secondary Data

Secondary data is by definition data that is written and collected by others, usually as primary data to be used for other purposes than your own. Secondary data can be collected through various ways such as through the World Wide Web, through books on relevant subjects and, through various reports and articles.

Secondary data can be divided into two main groups; internal and external sources, where external can be divided into public information and standardized analysis.

- Internal sources

Internal sources are information that Heavy Water International already have and can be provided to us by them.

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To rely on only internal sources when conducting secondary data collection will often not suffice and therefore it is important for us to gather other information from external sources. We can then compare it with our own information to check the validity and reliability of the information we posses.

- **External sources**

As mentioned above external sources can be divided into two groups, public information and standardized analysis.

- **Standardized analysis:** These analyses are often made by professional bureaus, which are meant to cover the needs of different industries and markets. These kinds of analyses often costs money to obtain and can give a general overview of the industry or market, but are often more detailed than what you can get from publicly available information. It is also often more reliable.

- **Public information:** We will be gathering information through the use of the World Wide Web where there is easy access to public reports that are relevant to our assignment. We will also use other forms of public information such as books, news publications, public statistics and articles.

The purpose of using secondary data is to obtain relevant background information about the different aspects of our report. Secondary data cannot answer all the aspects we are exploring, but it can be used to clarify and confirm information we have gathered through primary data collection, which will be our main source of information.

**2.1.2 Primary Data**

Primary data can be collected through various ways such as:

- Communication with people

- Observation of people

- Documentary analysis (Written material and graphical material)
These methods can give us both qualitative and quantitative data. This depends on how we choose to communicate, observe and register the content of different documents.

In our thesis we have chosen to focus on qualitative primary data collection through interviews with key persons within different categories, which will be explained further down.  

2.2 Qualitative Method
If we are to devise a good marketing strategy for the Heavy Water Vodka brand, a qualitative market research is the best approach to use. We have chosen qualitative market research because when doing research in a field that there is little or no information about it is best to use an explorative research design. By using qualitative method we are able to explore the depth of the market and get an overall overview of the important factors. Since we are not trying to measure the market potential, but rather identify suitable distributors and develop a market strategy for Heavy Water Vodka, it is better to use qualitative approach than a quantitative approach.

2.2.1 What is Qualitative Method?
Qualitative research can be construed as a research strategy that usually emphasizes words rather than quantification in the collection and analysis of data.

- Embodies a view of social reality as a constantly shifting emergent property of individual creation.  

In-depth, qualitative interviews are excellent tools to use when planning and evaluating the Chinese vodka market. An in-depth interview is an open-ended, discovery-oriented method that is well suited for describing the perspective some people have about the vodka market. Further on it can also give you an indication of who the target groups are.

---

The goal of the interview is to deeply explore the respondent's point of view, feelings and perspectives. In this sense, in-depth interviews yield valuable information.

There are key characteristics that differentiate an in-depth, qualitative research interview from a regular interview. Some key characteristics of in-depth interviews include:

- **Open-ended Questions.** Questions should be worded so that respondents cannot simply answer yes or no, but must expound on the topic.

- **Semi-structured Format.** Although you should have some pre-planned questions to ask during the interview, you must also allow questions to flow naturally, based on information provided by the respondent. You should not insist upon asking specific questions in a specific order. In fact, the flow of the conversation dictates the questions asked and those omitted, as well as the order of the questions.

- **Seek understanding and interpretation.** You should try to interpret what you are hearing, as well as seek clarity and a deeper understanding from the respondent throughout the interview.

- **Conversational.** You should be conversational, but your role is primarily that of a listener. There should be smooth transitions from one topic to the next.

- **Recording responses.** The responses are recorded, typically with audiotape and written notes (i.e., field notes).

- **Record observations.** You observe and record non-verbal behaviour in the field notes as they occur.

- **Record reflections.** You record your views and feelings immediately after the interview.

In essence, in-depth interviews involve not only asking questions, but the systematic recording and documenting of responses coupled with intense probing for deeper meaning and understanding of the responses. In-depth interviewing often requires repeated interview sessions with the target audience under study, some follow-ups can be necessary. Unlike focus group interviews, in-depth
interviews occur with one individual at a time to provide a more involved experience.

2.2.2 Key Persons to Conduct an Interview With
Our focus when conducting in-depth interviews will be with people who have key competence in the areas we need to know more about, such as:

- Distributors
- Bar and club managers
- Marketing specialists
- Heavy Water International Management
- Wine Boutique owner

2.2.3 Reliability and Validity
As stated in the previous chapter our thesis consists of both primary and secondary data. It is important that the information gathered is both reliable and valid. Therefore it is crucial that we remain critical to the sources we gather our information from.

When using secondary data it is important that we remain sceptical and suspicious of the source we are getting the information from such as when searching the World Wide Web for academic reports, published news paper articles, reports published by commercial and none commercial entities and government sources. The validity and reliability can be established through further investigating the site it has been published by, this can be done through checking:

- Who is the author of the site and what is their motive for publishing?
- Where is the site located? The URL can help you here. Is it an academic site (.ac) or government site (.gov) or a commercial one (.com or .co)?
- How recently was the site updated? Many sites will give you a last updated date, but you can also find clues as to whether a page is being well maintained by whether or not the links are being update and by its general appearance.
These facts are important to keep in mind when writing this report as the information gathered through the various ways (as stated above) will provide the data needed for the “grunt work” of the report.

2.2.4 Research Problems
Booking and going through with the in-depth interviews has turned out to be more time consuming than initially expected. As a consequence of this we have not been able to perform as many interviews as we would have liked. This has had a negative impact on primary research data reliability.

Finding good interview objects that work in the distribution business has turned out to be more difficult than expected. We are under the impression that as students, it is not so attractive for distributors to spend time on us.

Some interviewees have been reluctant to share information which could have been valuable to us. We believe this is due to fear that we are working for somebody that they might consider a competitor.

All our interviews have been conducted in English, due to our own lack of language skills in Chinese and French (many of the large operators in the Shanghai clubbing scene are French). This has naturally reduced our base of potential interview objects.

We have conducted interviews in English with people who are not fluent in the language. This might have contributed to misunderstandings that we are not aware of.

2.3 Summary of Research Methodology
In this chapter we have explained which research methodologies we have relied on in this thesis. We have used explorative research design because our previous knowledge about the Chinese market is very limited. We have based ourselves on in-depth interviews (qualitative method), with various market specialists. We have also explained some of the difficulties we encountered when booking and performing interviews.
Theory
3. THEORY

During the following part of this thesis we will describe the main marketing theories being used throughout the analysis. First we will explain the possible entry vehicles for Heavy Water International in Shanghai, followed by the principle-agent theory. Then we will describe the ACE-model for the internal analysis, followed by PEST and Porter’s five forces to identify the external factors. In view of the fact that Heavy Water International is entering a new market, the external analysis is important to give the company a better understanding of the market environment.

3.1 Key Factors for the Right Choice of Distributor

These are the key factors for the choice of a suitable distributor according to the CEO of Heavy Water International:

- The distributor has to be a strong local player
- The distributor must have knowledge about the Chinese market
- The distributor needs to have connections in the Chinese market
- The distributor should be small and dynamic
- Serious distributor with focus on premium to mid premium outlets
- Has to have some premium brands in their portfolio
- Has to have a wide range of outlets, bars and clubs, but with more focus on high price then low price

Some additional key factors according to Gripsrud and Nygaard in “Markedsføringskanaler” are:

- Amount of years in the business

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8 Pål-Andrè Pedersen, CEO of Heavy Water International - 2008
3.2 Distribution Strategies

There are three different distribution strategies:

- Exclusive distribution
- Selective distribution
- Intensive distribution

Exclusive distribution means that there are a very restricted number of intermediaries. This distribution strategy often includes exclusive distribution rights with the aim of creating a stronger bond between the seller and reseller.

Selective distribution means that the seller uses several distributors but not as many as those willing to distribute the particular product.

Intensive distribution means that the seller uses as many distributors as possible.¹⁰

3.3 Entry Vehicles

Before a company decides on which entry vehicle they should use, they should analyze the different entry vehicles in the market. The three (3) most used entry vehicles in China are: Wholly Owned Foreign Enterprise, Joint Venture, and Representative Office.

3.3.1 Wholly Owned Foreign Enterprise
A Wholly foreign owned enterprise (WFOE) is a company that when established is fully owned by a mother company often located in another part of the world. This method of establishing new companies internationally has been growing in popularity and is the most popular method in China at the moment.11

3.3.2 Joint Venture
A joint venture is a form of strategic alliance between one or more parts to share expenses to spread the risks, but also share the profits. What is meant by sharing expenses and profits is that when two or more parts come together to build up cooperation, it is often between two companies with the same interests.12

3.3.3 Representative Office
A Representative office is an office established by a company, often in a foreign country where the company does not already have a presence. This form of distribution-channel allows them to conduct market research, marketing and other non-transactional operations. This kind of distribution-channel is generally easier to establish than the other forms of distribution when it comes to both time and cash expenditure.13

3.4 Principle-Agent Theory
When choosing a cooperative partner (defined as an agent in the principle-agent theory) it is important for Heavy Water International to be aware of certain factors. The problem of motivating the chosen distributor to act optimal on behalf of Heavy Water International is known as “the principal-agent problem”. To avoid information asymmetry, uncertainty and risk there are different ways Heavy Water International can act towards their agent. By gathering information about the potential agents and conducting accurate selections before the contract is written it is possible to confine the risk of pre contractual opportunism from the agent. Another problem that might occur after the contract has been written is known as the moral hazard problem. Here the problem is that the principal in this case Heavy Water International does not know if the contract has been satisfied in

11 http://en.wikipedia.org/wiki/Wholly_Foreign_Owned_Enterprise date: 04.05.08
12 http://en.wikipedia.org/wiki/Joint_venture date: 04.05.08
13 http://en.wikipedia.org/wiki/Representative_office date: 04.05.08
the way they wanted it to be. The way to avoid this is to ensure the right incentives so that the agent acts the way the principal wants.\textsuperscript{14}

Heavy Water International can reduce the risks of pre-contractual opportunism by employing these three strategies:

1. Screening strategy - The screening process aims to cut away a large number of potential cooperative partners.

2. Signalizing strategy – This means that they signalize that they have the relevant background, such as a staff that has the relevant education and experience in the field.

3. Self-selection – Self-selection happens when different candidates uncover their true qualities. This occurs mostly when a contract is being offered.\textsuperscript{15}

When a contract with the chosen distributor has been made, there is a risk that the distributor acts opportunistic, defined as the moral hazard problem in the principal-agent theory. Heavy Water International can reduce the risk of this possible post opportunistic behavior by using two (2) strategies;

1. Control- of the distributor which demands resources, and can be expensive.

2. Follow up – by closely watching the distributor’s moves and continuously giving feedback to the distributor about rights and wrongs can reduce the risk of post opportunistic behavior.\textsuperscript{16}

3.5 ACE- Model

According to Solberg (2005) progress in the international market is dependent on several conditions. The ACE- model state that it is mainly the company’s internal engagement and their support to the internationalization process who are critical if the company succeed or not. Solberg’s model describes how deeply rooted these factors are in the organization. We will use this model to gain a better


understanding and create a stronger foundation regarding strategic decisions.\textsuperscript{17}

The different elements of ACE are:

\textbf{2 ACE}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{ACE_Model.png}
\caption{ACE Model}
\end{figure}

\subsection*{3.5.1 Attitude}
Solberg (2005) states the importance of the “right” attitudes from the head of affairs to the employees, regarding the company’s activities and decisions. This is important to assure a good embodiment in the organization.

\subsection*{3.5.2 Competence}
In accordance with Solberg (2005), skills and insight are essential factors in an export company to create the right competence. These factors can create value if they are used in the “right” way. We will examine these factors closer in order to find out how Heavy Water International creates their value.

\subsection*{3.5.3 Embodiment}
According to Solberg (2005) it is important that the “right” attitudes regarding the internationalization are deeply rooted within the organization, and that all divisions are concerned about these thoughts in order to gain international success.

\textsuperscript{17} Solberg, \textit{International Marketing}, 144:2006
3.6 PEST-Analysis

The PEST analysis focuses on the environmental influences on a business. The short form stands for the Political, Economic, Social and Technological issues that could affect the strategic development of a business. Identifying PEST influences is a useful way to sum up the external factors that have an impact on the company. However, it must be followed up by considering how a business should react to these influences.\(^{18}\)

Important PEST factors to be analyzed closer:

- **Political/Legal**
  - Governmental plans affecting the industry
  - Guanxi with the government
  - Laws and regulations
  - Intellectual property protection
  - Trade regulations and tariffs

- **Economic**
  - Government intervention in the free market
  - Economic growth rate
  - Discretionary income

- **Social**
  - Demographics
  - Geographic’s
  - Culture and relations (Guanxi)
  - Trends
  - Leisure interests
  - Environmental issues

- **Technological**
  - Research and development activity

\(^{18}\) [http://www.coursework4you.co.uk/pest.htm](http://www.coursework4you.co.uk/pest.htm) Date: 08.05.08
3.7 Porter’s Five Forces

Michael Porter’s Five Forces model can assist us in the analysis of the market and define the important players in it. These five forces determine the competitive intensity and therefore attractiveness of a market. This is an important model that every company who enters a new market should examine closer because it helps explain the market forces in the desired target market.  

The five competitive forces are shown in the figure below and impact the business by:

![Diagram of Michael Porter’s Five Forces](image)

3.7.1 Threat of New Entrants

The threat of new entrants depends on how high the entry barriers to an industry are. These barriers may be investments, economics of scale, and access to industry distribution channels and probability of retaliation from existing companies in the industry. To find out how attractive a segment is, a company also needs to examine the exit barriers.

3.7.2 Threat of Substitutes

Several substitutes in the market can lower profitability because they often limit the price level. The threat of substitutes demands the company to be aware of price trends and the overall competition in the substitute branch. This threat also

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19 Kotler. Markedsføringledelse 198:2005
20 Kotler. Markedsføringledelse 198:2005
depends on the consumer’s eager to substitute, price, and performance of the product and the switching costs.\textsuperscript{21}

\subsection*{3.7.3 Bargaining Power of Suppliers}
The industry is less attractive if the company’s suppliers can increase the price or reduce the quanta delivered. The suppliers bargaining power is high when there are few substitute products, when there are many buyers and few suppliers and the costs of switching supplier are high.

\subsection*{3.7.4 Bargaining Power of Buyers}
The demand is created by the buyers. The industry is less attractive if the buyers have the power to push the prices down. The buyers bargaining power increases when the buyers switching costs are low, the product is undifferentiated, there are few dominant buyers, or the product is standardized.\textsuperscript{22}

\subsection*{3.7.5 Intensity of Rivalry}
The intensity of rivalry in an industry depends on several factors. These factors may be:

- The competition structure in the industry. How many strong and aggressive competitors are there in the industry?
- Switching costs for the buyers.
- How heavily competitors invest in order to stay in the industry.

\subsection*{3.8 Consumer Analysis}
The aim of the consumer analysis is to identify Heavy Water Vodka’s prospect and segmented market. According to Free World academy 2005, this can be accomplished by examining the customer’s benefits and their profile. “This analysis is important because it allows you to target your advertisement on the benefits, which really matter for the customers.”\textsuperscript{23}

\begin{footnotesize}
\begin{thebibliography}{9}
\bibitem{21} Kotler. \textit{Markedsføringledelse} 198:2005
\bibitem{22} Kotler. \textit{Markedsføringledelse} 198:2005
\bibitem{23} \url{http://www.freeworldacademy.com/newbizzadviser/fw13.htm} Date 24.04.08
\end{thebibliography}
\end{footnotesize}
3.8.1 Customer Benefit

The customer benefit is the value the product gives to the customer. We can divide the benefits into two parts. These are the functional and psychological benefits. The functional benefits can be defined as money, time, duration or physical measures such as: Heavy Water Vodka is less expensive than Grey Goose Vodka; the benefit here is measured in money. The psychological benefits can be the customers’ positive emotions such as self esteem and feeling of power. An example here could be that Heavy Water Vodka looks attractive and masculine and thus gives the buyer a positive emotion.\(^\text{24}\)

3.8.2 Customer Profile

Customer profile is a definition used when describing different characteristics of a customer who would benefit from the use of your product.

3.9 Maslow’s Hierarchy of Needs

“Maslow’s theory makes it better to understand the market from a marketing perspective in how products fit into a consumers plans, goals and life.”\(^\text{25}\)

Abraham Maslow has set up a hierarchy of five levels of basic needs. These five levels are divided into two main groups.

- **Group 1:** Physical needs, psychological and safety.
- **Group 2:** Social needs, affiliation, admiration and status.

Maslow’s hierarchy of needs explain why people are driven by particular needs at particular times. For example when a person does not get his physiological needs covered he cannot move up to the higher tiers of the hierarchy. These physical needs can be driven by the need to satisfy a person’s hunger. After this need has been covered a person can then move on to the next tier in Maslow’s hierarchy of need until a person achieves the self-realization tier. The two first tiers can be grouped into Physical needs, psychological needs and safety. The three next tiers can be grouped into social needs, affiliation, admiration and status as seen above.

\(^{24}\) [http://www.freeworldacademy.com/newbizzadviser/fw13.htm](http://www.freeworldacademy.com/newbizzadviser/fw13.htm) Date 24.04.08

\(^{25}\) Kotler. *Markedsføringledelse*, 159:2005
The different tiers consist of; tier one starting from the bottom and going all the way up to tier five at the top.

In today’s world most marketing and management theories rely on what is called a western perspective of the individual as an independent, autonomous identity, free to make decisions based on purely personal desires and affiliations, living life in accordance with Maslow’s hierarchy of needs. However what were not mentioned in Maslow’s hierarchy of needs is the cultural differences.

“Clearly, the hierarchy of priorities is different in an Asian context, where interpersonal relationships and social interactions are more valued, on average, than self-actualization needs.”

The difference between Maslow’s hierarchy of needs and the Asian equivalent is displayed by Roll, Martin in his book Asian Brand Strategy.

![Hierarchy of Needs Pyramids](image)

**Figure 4 Hierarchy of Needs Pyramids**

### 3.10 Segmentation, Targeting and Positioning (STP)

Segmentation, targeting and positioning constitutes the foundation of all marketing strategy work. In other words, to provide a sufficiently well based market penetration strategy for Heavy Water International in China, we will be using some well-known STP theories.

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3.10.1 Segmentation

Kotler defines a market segment as a consumer group where the customers have roughly the same needs\textsuperscript{29}. Kotler also stresses the importance of not mixing together the terms of segment and sector. For example when segmenting the vodka market, we may choose to separate the consumers who prefer the luxurious feel of drinking premium vodka from those who just drink to get drunk.

We may want middle aged men in the upper income bracket as our target customer group, but that presents a slight problem, as the preferences of people in this group is likely to vary a lot. The customer group mentioned must therefore be considered a sector, not a segment.

In order for segmentation to be a useful tool when developing market strategies, five basic criteria need to be met:\textsuperscript{30}

- **Measurable** – It must be possible to measure a segments size, purchasing power, and it must also be distinguishable
- **Substantial** – It must be big enough to be profitable.
- **Accessible** – It must be reachable and possible to serve
- **Differentiable** – Segments must respond to the marketing mix in different manner from one another
- **Actionable** – It has to be possible to develop segment specific ways to attract and serve the segment

Market segmentation is in part an adaptive strategy\textsuperscript{31}. A company may target one or several segments and use the optimal marketing mix for those particular segments to achieve their goal. On the other side, market segmentation need not be purely adaptive as a company may very well just choose the segments they already are particularly well suited for. By choosing a segment where you already have a competitive advantage, adaption costs can be minimized and profits subsequently increased. By using market segmentation is this manner, competitiveness is increased which may ultimately result in what Porter described

\textsuperscript{29} Kotler. *Markedsføringsledelse*, 226:2005
\textsuperscript{30} Kotler. *Markedsføringsledelse*, 231:2005
\textsuperscript{31} http://www.eurekafacts.com/STPArticle.pdf Date 23.04.08
as a powerful effect on competitive advantage because it shapes the configuration of the value chain."

3.10.2 Targeting
When the segmentation work is done, a company may proceed to the next stage of the strategy development which is targeting of specific segments. There are two main factors that come into play here:

- How attractive are the segments that are being looked at
- How well prepared is the company to handle the segment, with regards to resources and company goals

There are five main types of targeted marketing. These are:

- Single segment concentration
- Selective specialization
- Product specialization
- Market specialization
- Full market coverage

One benefit that comes with single segment concentration is the thorough understanding of the segment that a company may develop over time. By only targeting one segment, a company will have a greater chance to develop a strong position. There are also fewer costs involved when only targeting one segment, as marketing, production and distribution is specialized. The downside to only targeting one segment is the inherent risk that follows putting “all eggs in one basket”.

Selective specialization is about choosing a few segments that are attractive and fitting, thus reducing the risks that come with single segment concentration.

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32 [http://www.eurekafacts.com/STPArticle.pdf](http://www.eurekafacts.com/STPArticle.pdf) Date 23.04.08
33 Kotler, *Markedsføringsledelse*, 243:2005
When applying the product specializing pattern of targeted marketing, a company will sell one specific product to multiple segments. There is however always the risk that a replacement product may come along, making this strategy vulnerable to innovation.

When a company focuses on providing many needs of one specific customer group, it is called market specialization. The advantage of this strategy is that a company may build up a good reputation among its consumers.

Companies that try to implement full market coverage, intend to supply all customers groups. Only very large corporations have the capacity to do this. There are two main ways of doing this: Differentiated and undifferentiated marketing. With undifferentiated marketing a company tries to provide all its customers with the same product, and use the same marketing programs towards everyone. With differentiated marketing the opposite is the case.

3.10.3 Positioning
Positioning entails shaping a companies offer and image in such a way that it gains a unique spot in the target consumers mind. The end result will hopefully be that the company has managed to create an impression in the customers mind that their products have a value.

Heavy Water International should identify two important aspects with accordance to their positioning of the Heavy Water Vodka brand, these two are:
Points-of-parity which are the attributes, services, functions that is similar to the competitor’s product. Associations that are not necessarily unique to the brand but may be shared by other brands, where you can at least match the competitors claimed benefits.
Points-of-difference is the attributes, services, functions that differentiate from competitor’s products so that they positively evaluate and believe they could not find to the same extent with a competing brand points where you are claiming superiority or exclusiveness over other products in the category.34

According to Ries and Trout\textsuperscript{35}, positioning starts with a product, which may be anything from a merchandise, a service, a company or an institution or even a person. But positioning is not about what you do with the product, but how you position your product in your customers’ minds.

### 3.11 Marketing Mix

The marketing mix, as defined by Philip Kotler, is a set of tools to help companies obtain their marketing goals in their targeted groups\textsuperscript{36}. It was the famous marketer Neil Borden who in 1953 coined the term “marketing mix”, but the marketing mix with the 4 P classifications as we know it today, was introduced by another prominent marketer named E. Jerome McCarthy in 1960\textsuperscript{37}.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{Marketing_Mix}
\caption{Marketing Mix}
\end{figure}

Although other marketers have added other P’s such as personnel and packaging, it is the 4 original P’s that are commonly cited in most marketing literature today.

The following model is meant to give an illustration over some of the different factors under each P:

\textsuperscript{35} Kotler. Markedsføringsledelse. 251:2005
\textsuperscript{36} Kotler. Markedsføringsledelse, 16:2005
\textsuperscript{37} \url{http://en.wikipedia.org/wiki/Marketing_mix} Date 06.05.08
Strategies made with the marketing mix will influence both the trade channels and the final consumers. From the marketers’ point of view, the marketing mix represents the tools available to influence the consumer. However from a consumers’ point of view, the 4 P’s are there to provide them the benefit. Robert Lauterborn has suggested that the marketers’ 4 P’s correspond to a consumers’ 4 C’s:

1. Customer solution
2. Customer cost
3. Customer comfort
4. Customer communication

3.12 Competitor Analysis

Competitor analysis is as the name implies an effort to map out any existing and potential competitors. The intention is to assess your competitor’s strengths and weaknesses and subsequently be able to adapt a strategy to the situation at hand.

Competitor analysis should be regarded as an essential part in corporate strategy development. Companies that perform poorly ignore their competitors, mediocre companies copy their competitors, but the truly victorious companies are the ones who lead their competitors.

3.13 SWOT Analysis

The SWOT analysis is a strategic planning tool used to evaluate strengths, weaknesses, opportunities and threats that a company is facing in a given project or business venture. Strengths and weaknesses are part of the internal part of the analysis, whereas opportunities and threats are part of the external analysis.

The intention of the SWOT analysis is to identify the important underlying factors one needs to know when developing a strategy to reach the goal that is set. It compares a company’s combined resources to the context in which they are and

38 Kotler, Markedsføringsledelse, 18:2005.
39 Kotler, Markedsføringsledelse, 197:2005
will be operating in, thus making it possible to take advantage of the strengths, improve the weaknesses, reap any opportunities that may arise and prepare for any potential threats.40

Figure 6 SWOT

- **Strengths** – A company’s strong points. This could be both the resource advantage a company has over its competitors, or the demand in the market the company is serving or expecting to serve. It is the resources and competencies available to a company that determines its strengths.

- **Weaknesses** – Limitation or deficiency of a company, relative to its competitors. Should be seen from both the company’s and customer’s point of view.

- **Opportunities** – Basically any major factor that might have a positive on a company’s future growth.

- **Threats** – Any impediment to a company’s current or desired state.

3.13.1 Limitations of the SWOT Model
Although the SWOT model is an easily accessible and comprehensible model, it’s still has some faults that it’s prudent to be aware about. Because it is so easy to

40 Kotler. *Markedsføringsledelse*, 75:2005
use, both managers and students have a tendency to jump into analyzing without
giving it the appropriate time and effort needed to make it worthwhile.

The SWOT analysis was developed in the 1960’s and does not take into
consideration some of the more subtle aspects of modern strategic theory, like trade-offs. 41

Not all factors in the analysis are easy to place. Two managers may have two
completely different points of view as to what should be considered a threat and
what should be considered an opportunity.

Some people have a tendency to write down anything they construe as remotely
beneficial when analyzing a company’s strengths. This is however not a very
constructive way to work. There is more to be gained on focusing on areas where
a company is sure to have a genuine advantage in competitiveness. The same
could be said for weaknesses. It’s possible to argue that this is more of a human
error element than a weakness in the model, but it’s still important to be aware of
it.

3.14 SWOT Analysis Summary
In this chapter we have described some of the relevant marketing theories that
apply to our research aim. We started by identifying key factors for the right
choice of distributor. Thereby we explained three (3) distribution strategies
(exclusive-, selective- and intensive distribution), before we went on to describe
what we consider are the most likely entry vehicles for penetrating the Chinese
market, which are Wholly Foreign Owned Enterprise, Joint Venture and
Representative Office.

We have chosen to include Principal Agent Theory so that we might learn to
avoid informational asymmetry, uncertainty and risk in conjunction with choice of
distributor.

In order to gain a better understanding and a strong foundation for making the
right strategic decisions, we have opted to include the ACE-model.

41 http://university-essays.tripod.com/swot_tows_analysis.html Date 05.05.08
We included the PEST analysis so that we might gain an overview over the external factors that might have an impact on Heavy Water International business activities in China. We have also used Porters Five Forces model to analyse and explain the market forces in the Chinese market.

In order to understand how Heavy Water Vodka might fit into consumers’ plans, goals and life, we have chosen to include Maslow Hierarchy of needs. To provide a well based market penetration strategy for Heavy Water International we opted to use segmentation, targeting and positioning (STP) theories.

In order to get an overview over the tools that Heavy Water International may use to obtain their marketing goals we included the Marketing Mix. Further on, we included a double weighted SWOT analysis as a tool to gain an overview over the strengths, weaknesses, opportunities and threats of Heavy Water International in a market penetration scenario. The intention with SWOT analysis is to identify the important underlying factors one needs to know when developing a strategy to reach the goal that is set.
Preliminary Research
4. PRELIMINARY RESEARCH

Through this research we will examine the growing vodka market in Shanghai. We will take a closer look at the emerging markets in Shanghai to illustrate how the vodka market is today – further on we will look at different barriers that Heavy Water International might encounter in the entry process. Finally we will take a close look at branding in Shanghai, and the growing luxury market.

4.1 General Information about the Vodka Market in the World

Vodka is the world’s most popular spirit drink. In total sales of hard drinks about 20% of the value falls on vodka which by two times exceeds sales of whisky and almost by four times sales of cognac and brandy. Annual world consumption of vodka constitutes to be 7-8 billion bottles of vodka, which in value terms constitutes $45 billion.42

The annual growth of global vodka consumption is estimated at 2-3%. The global vodka market continues to expand, with most of the international brand’s sales rising.43

Euromonitor, a global consultant and marketing company44, reports that manufacturers are facing higher levels of growth than ever before in the global spirits market, and are concentrating their efforts in penetrating less developed markets to compete more effectively against cheaper local spirit brands45. In spite of heavy volume sales in the total global market, Euromonitor reveals strong potential for growth lies in certain regions, where multi-national players still represent a small volume share. In other words Asia Pacific, Eastern Europe and Latin America will be the markets to explore. Sales of imported spirits in these regions will be strongly driven by fashion trends and marketing efforts, and will depend on the success of global players in convincing consumers to trade up to international brands, rather than local spirits.

42 http://interdrinkex.ru/news/0293.html?lang=2 Date 05.04.08
43 http://www.warsawvoice.pl/view/7625/ Date 05.04.08
44 http://www.euromonitor.com/ Date 05.04.08
45 http://www.euromonitor.com/Euromonitor_highlights_new_opportunities_for_growth_in_the_global_spirits_market Date 05.04.08
Euromonitor expects that imported spirits such as Bacardi, Smirnoff and Grey Goose will benefit from their fashionable image, whilst makers of Scotch whisky and cognac will be able to capitalize from their international reputation as quality products.\(^{46}\)

Today there are numerous actors, from all over the world, in the vodka market - all with their eyes turned towards China.\(^ {47}\)

### 4.1.1 Emerging Market

China became a member of the World Trade Organization in 2001 – and foreign trade has increased profoundly since then.\(^ {48}\) China has in this period developed to an essential part of export of merchandise. Since there are differences in the economic development, it is important to understand that there are different markets within the country on a singular level. The markets inside China are both immature and mature.\(^ {49}\) A mature market belongs to a mid-developed economy and has established an advanced effective industrial structure with tertiary industry and newly-emerging industries like the cities on the east-coast of China.\(^ {50}\)

Market orientation is pervasively accepted and most enterprises are able to design and implement marketing strategies with relatively competent resources. Stability development features the whole market, with constant innovation. This is manifested by the fact that the market seems less changeability and is equipped with mechanism to effectively deal with unpredictable incidents as well adapt to change if necessary. One example of a city like this is Shanghai.

The immature market features exposure, insecurity, more fluctuation, and unpredictable and has not been fully developed in the aspects mentioned before (vulnerability, insecurity). There exist obvious deficiencies in the market institution which need to be corrected. Immature markets are found in cities and provinces in Western part of China.

\(^{46}\)http://www.euromonitor.com/Euromonitor_highlights_new_opportunities_for_growth_in_the_global_spirits_market\ Date 05.04.08
\(^{47}\)http://www.tastings.com/spirits/vodka.html\ Date 05.04.08
\(^{48}\)http://www.innovasjonnorge.no/Internasjonale-markeder/Kontorer-i-utlandet/Kina/Markedsinformasjon/\ Date 05.04.08
\(^{49}\)Professor Emma Qiu, 2007, lecture 11.09.2007, Fudan University
\(^{50}\)Emma Qiu, 2007, lecture 11.09.2007, Fudan University
The “new economy” in China today shows that there is a substantial increase in the buying power, and there is a greater variety of goods and services. In other words, it is a very new market especially when it comes to the luxury boom China is experiencing. Today 2% of the population in Shanghai has a salary over 200.000 RMB. Professor Qui has defined the Chinese middle class as people who have an income between 60.000 to 200.000 RMB per year.  

4.2 Barriers
Exporters to China face numerous challenges when entering the Chinese market. Besides from transportation, logistics, and distribution costs, exporters must contend with domestic competitors.

Since China joined the World Trade Organization in 2001, it has had to open its doors to foreign investments. China further lifted restrictions foreign direct investment, allowing foreign owned wholesalers, distributors, and retailers. Western retailers can now implement their high-efficient distribution infrastructures and logistics to greatly simplify the movement of imported products to store shelves. With the fast development of Chinese foreign trade and investment, some trade partners set up barriers to trade and investment to protect their domestic industries and home markets.

While there are opportunities for international spirit brands in the Shanghai market, there are distinct marketing challenges that need to be overcome – which Heavy Water International will face when entering the Shanghai market. Low familiarity with international brands among the Shanghainese could be one challenge. A challenge may also be that the targeted consumers are split for choice, and often have low brand commitment towards several brands.

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51 Professor Emma Qiu, 2007, lectures 11.09.2007, Fudan University.
52 http://scm.ncsu.edu/public/facts/facs040203.html date 05.04.08
53 http://www.innovasjonnorge.no/Internasjonale-markeder/Kontorer-i-utlandet/Kina/Markedsinformasjon/ date 05.04.08
54 http://www.marketresearch.com/product/display.asp?productid=1467068&g=1 Date 10.04.08.
When a brand like Heavy Water International is to enter this market, the company has to take a long term view as it likely will take time to meet their expected return on investment. Despite such challenges many firms like Heavy Water International have indicated that they expect to continue investing in China over the next three to four years even though it may take longer for them to meet their profit goals.\textsuperscript{55}

4.3 The Shanghai Vodka Market

Shanghai residents have the highest per capita disposable income in China at US$1,800 per year. Shanghai’s 17 million residents especially enjoy new foods and flavors, and it leads the nation in food and restaurant trends. As the middle class expands and incomes rise, consumption of non-essential, high-end products such as high-end vodka like Heavy Water Vodka will probably rise as well according to USDA Gain Report.\textsuperscript{56}

The Chinese people are no strangers to strong spirits. The traditional choice is baijiu which is typical Chinese liquor. Baijiu liquor still dominates the spirit market, with imported liquor accounting for less than 1 per cent of the 536 million cases of spirits that was consumed in China in 2007, according to the International Wine and Spirit Record\textsuperscript{57}. But that small percentage is more than four times the volume of imported whisky, gin, tequila, vodka, and cognac that was consumed in 2003, before China lowered its import tariffs in accordance with its World Trade Organization agreement. However, imported liquor consumption in China has grown 14.5 per cent a year on average since 1997, and more than 40 per cent a year since 2002 according to International Wine and Spirit Record. China is probably one of the prime liquor markets in the world, and its 3000 baijiu producers are progressively becoming targets for mergers and acquisitions by international companies. “Diageo, LVMH and V&S Group has each invested in Chinese baijiu ventures during the past year. In the trendy clubs and karaoke bars

\textsuperscript{55} http://www.ey.com/global/download.nsf/China_E/050914_Report_E/$file/China-The%20New%20Lap%20of%20Luxury_Eng%20(Final).pdf Date 12.04.08
\textsuperscript{56} Article: USDA Agricultural Service Gain Report, survey conducted about China and Shanghai.
\textsuperscript{57} http://www.iwsr.co.uk/default.htm Date 13.04.08
of Shanghai and Beijing, the young are increasingly drinking foreign firewater”. (Firewater equals strong spirits and liquor like Chinese baijiu and well known vodka brands; Absolut, Grey Goose and Belvedere according to wines-info.com.)

While there are clear opportunities for international spirit brands in the Shanghai market, there are marketing challenges that needs to be overcome, as mentioned before under barriers. Vodka consumption in China overall is very small – about a quarter of a million deciliter, thus far annual growth rate exceeds 50%.

The Shanghainese are still “new” to international spirit brands. With the exception of vodka, no spirit types have built a level of familiarity or product knowledge in the spirits market. This may lead to misunderstandings among consumers, as they do not see the difference between categories and the brands. The Swedish vodka brand Absolut strongly contributes in the education of the consumer as to drinking habits. With its award winning design and global marketing campaigns, Absolut is perhaps the world’s best known vodka brand.

4.3.1 Facts and Figures
Heavy Water International provided us with a marketing report about the Chinese Vodka market. We will now present some important numbers from this report regarding the consumption within this market.

Spirits consumption in China
Source: Marketing Rapport from the IWSR - the International Wine and Spirit Record. See the appendix.

Market commentary from the report by IWSR: 2007:
Vodka grew 37, 7% there were sold 280 000 cases of vodka, dominated by Absolut, Smirnoff and Wyborowa. Chinese spirits rose in 2006, as the government permitted increased distillation of raw materials (rice and wheat).
premium segment showed double digit growth with some premium players reporting problems in meeting demands.

Note that the danger of using any report in China is that it can be out dated before it appears, by further growth, or by the effects of government actions, or by changes in the economic atmosphere. The numbers from this report recorded the situation, as far it could be measured, up to early 2004 after the most prolonged anti-corruption drive to date, while the fullest effect of lower duties are beginning to work through.

Chinese people are getting richer. Individuals living in cities are recording up to 10% growth rates in their personal disposable income every year. Many large cities (1 million plus) are still barely touched by foreign luxury goods. The current political and economic strategies order continued after the death of Deng Xiaoping. But the odds are good that cognac, probably Scotch in the North and white or clear luxury spirits will eventually resume strong growth.  

4.4 Distributors in China

The following chapter gives an overview over suitable distributors operating in Shanghai/ China today.

**Diaego PLC:**

- One of the leading distributors in Shanghai and China,
- Entered China in 1995 aiming for traditional Chinese liquor (or in other terms “baijiu” – Baijiu, literally meaning "white liquor")
- PLC entered the Chinese market by selling Jonnie Walker and J&B whisky. Diageo PLC had an agreement with Sichuan Chengdu Quanxing

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61 Heavy Water Internationals report on the Chinese vodka market, made by: The IWSR.
62 http://www.diageo.com/en-row/homepage.htm Date 24.04.08
63 http://www.atimes.com/atimes/China_Business/HL14C03.html Date 26.04.08
Group\textsuperscript{64}, another distributor, which makes Swellfun spirits brand in Shanghai. This agreement made the brand Swellfun the first baijiu brand with foreign interests, and Diageo the second-largest shareholder in Chengdu Quanxing Group.

**MMB:**

- Has a Norwegian account manager (Cem Buze)
- Deals with luxury goods such as high end wine and truffles
- The company is small – medium sized

**Taifu:**

- The company is medium sized
- Good reputation because of their professionalism and logistic expertise
- Chinese staff, but is proficient in English.

**ASC Fine Wines:**

- One of the largest distributors in China today
- Operates mainly with wine, the Norwegian brand VOSS Artesian Water is in their portfolio today (entered the market in 2005/2006)

\textsuperscript{64} http://www.quanxing.com.cn/english/qyjs_jituan.htm Date 01.05.08
<table>
<thead>
<tr>
<th>Distributors</th>
<th>Contactperson / Address</th>
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<th>Telephone</th>
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<td>Matthew Gong</td>
<td><a href="mailto:matthewgong@asc-wines.com">matthewgong@asc-wines.com</a></td>
<td>021-6445-3214</td>
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</tr>
<tr>
<td>Diageo PLC</td>
<td>Official Office in London</td>
<td><a href="mailto:global.general.information@diageo.com">global.general.information@diageo.com</a></td>
<td>44(0)2079275200 (plus 44, England)</td>
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<td>Sichuan Chengdu Quanxing Group</td>
<td>China Sichuan Tianhaochen Liquor Co. Ltd.</td>
<td><a href="mailto:QUANXING@MAIL.SC.NET">QUANXING@MAIL.SC.NET</a>, <a href="mailto:swellfun@swellfun.com">swellfun@swellfun.com</a></td>
<td>8628-87500210</td>
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<td>Bacardi – Martini</td>
<td>Chris Pan</td>
<td><a href="mailto:chris_pan.sh@telford.com.hk">chris_pan.sh@telford.com.hk</a></td>
<td>+86 (21) 6426 1908</td>
<td>Wine &amp; Spirits</td>
</tr>
<tr>
<td>Pernod Ricard</td>
<td>Official Office in Shanghai:222 Hu Bin Road, Suite 2001 20/F, One Corporate Avenue</td>
<td><a href="mailto:clubpremium@pernod-ricard.com">clubpremium@pernod-ricard.com</a></td>
<td>00 8621 2301 1000</td>
<td>Spirits, Wine and Whisky</td>
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<td>Links Concept</td>
<td>Hong Kong Head Office: 27/F., EIB Centre, 40-44 Bonham Strand East Sheung Wan Hong Kong</td>
<td>Mail can be sent through website: <a href="http://www.linksconcept.com.hk">http://www.linksconcept.com.hk</a></td>
<td>(852) 2802-2818</td>
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<td></td>
<td>Spirits, Whisky, Champagne, Wine</td>
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4.5 Chinese Business Culture

Many foreigner investors assume that there are several secrets when doing business in China. Even though they think so, the secret to succeed in doing business in China is the same as doing business in Europe or USA, making a good business plan and having a good business strategy. Another predicament is that many foreigners think that studying the “mystique” inside China is the right way to go, becoming excessively culture sensitive. One of the main challenges when outsourcing, is to gain Guanxi and using Chinese people that may help you regarding Guanxi. The latest couple of years China have opened itself more for western companies that wish to introduce their products within China. There has been a legislation of laws and government policies, which has made it easier for companies to enter the China market. The Government has passed laws that protect private ownership and intellectual property in the country; it has also embraced public/private partnerships and domestic/foreign partnerships. China is the manufacturing plant of the world, providing a sound base for outsourcing strengthened by risk mitigation and stability. This is a plus for western companies that wish to outsource their production to China.

Guanxi, pronounced “gwan-shee” is the Chinese word for the mutually beneficial relationships critical to success in China. In China there is no purely business relationship, instead to be successful one must blend formal relationship with personal ones. Guanxi refers to the delicate art of building and nurturing the relationship, both personal and formal. In China’s old way of doing business, it can carry a negative connotation- of favouring and cronyism. But it can also express the deep and lasting relationships that is built over time- and this is what “good Guanxi” is referred to in the book “Guanxi” by Buderí and Huang. There are four basic principles within Guanxi; trust (respect and knowledge of others), favour (loyalty and obligation), dependence (harmony and reciprocity, mutual benefit) and adaptation (patience and cultivation).

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65 Professor Henning Kristoffersen, lecture 10.09.2007, Fudan University
In the book “Guanxi” by Buderi and Huang there are six “challenges” when it comes to doing business in China.

1) “Unique protocols and relationships”, which is built on trust, relationships, and mutual respect. It is crucial to build relationship with the government at all levels from the start. Challenge two is “contribute first and benefit later”. The aim in these challenges is to make a good impression with the Chinese.

2) Access to technology is very important for the Chinese, compared with money. From the old days, the Chinese were interested in obtaining capital through partnerships and joint ventures, with companies abroad. The Chinese are more focused on companies that are more willing to transfer technical and business knowledge- companies must show their willingness, and then wait patiently for their rewards.

3) “Hire senior leaders and local people”, creating good leadership models that can develop the Chinese citizen into leaders, this also helps the government take the company seriously, and it is also vital for foreign firms to provide in-depth training to their local employees.

4) “Play by China’s market rules”, this can be a major challenge for foreign companies. The government feels no obligation at all to provide access to its rapidly growing market, simply just because a foreign firm offers great products or possessing a sterling reputation. The transition from planned economy to a market-based system has not established all the business and legal structures found in more developed economies. Creating or tailoring products specifically made for China, shows respect and value for local tastes, and satisfies the customer more.

5) “The local economy gets top priority”, with this according to the authors, Huang meant that “China expects multinationals to help nurture local economy in exchange for access to the China market, even if this means that the multinational
companies are fostering future competitors”. In other words, Chinas prime goal is to develop a strong economy where domestic companies can thrive.

6) The last challenge, number six, is “good image can be exclusive”. Public Relations are everything in China. The delicate public relations are especially high for multinational firms, press freedom is limited in China and the media is easily manipulated, which leaves firms vulnerable for the media. To avoid this companies have to take a low-key approach to PR, and stay humble and focus on the partnership with China. It is also clever to gain trust from the Chinese government, and local partners. PR is meaningless unless it is built over a long-lasting framework of trust and strong relationship. In other word, the way to success is all about fostering good Guanxi.

4.6 Brand and Branding

4.6.1 Branding in Shanghai

One way into this market is by finding a niche that neither of the other providers is targeting. The big brands operate using exclusive distribution deals with bars; often the brands own both the distributor and the bars. Access to these distribution networks is almost impossible for new entrants who wish to push their product out to the same consumer group as the owners of the distribution company.68

4.6.1.1 Consumer Behaviour

The Chinese consumers are not yet sufficiently educated on vodka consumption and are not particularly brand loyal. Consumers are likely to choose an alternative product if the price is right or if the brand is the only available. Brand names in the Chinese vodka market are virtually unknown to the consumers and the switching cost is extremely low as there are in fact many providers of vodka. In addition there are several other substitute products, such as whiskey, cognac and champagne, which must also be defined as possible competitors to vodka.69

68 Professor Emma Qiu, lecture 25.09.2007, Fudan University
69 http://www.ers.usda.gov/publications/err32/err32.pdf Date 20.04.08
"The Heavy Water Vodka consumer is one who is influenced by western pop-
culture and has sufficient funds, and persons who want to be seen as society’s
elite. In this segment, price is of no interest and brands are used to promote one
selves status".  

4.6.2 Luxury Branding

China is the world’s third largest consumer of high-end fashions, accessories and
other luxury goods. Luxury goods when defined refer to goods that communicate
to consumers an elegant and redefined way of living, focused on style and quality
and especially targeted at the high-end and middle/high-end market.  

Chinas booming economy, coupled with a substantial increase in the number of
buyers of luxury goods, has fuelled the growth of the Chinese luxury market,
which has enormous potential for further growth. In general, China’s luxury
goods consumers are in two different categories according to the luxury report by
Ernst & Young in Shanghai. One group is comprised of wealthy consumers who
are crowd averse; seek personalized services, and frequently luxury retail for the
newest and fashionable products without concerns for the price. The second group
according to Ernst & Young consists of white-collar employees who will spend an
entire month’s salary on a single purchase. Surveys that Ernst & Young have
conducted, show that this group consists of people ranging from the age of 20 to
40. Chinese consumers tend to buy luxury products without much study or
research. Moreover, prices of luxury goods can be at least 20-30% higher in the
Mainland China than in Hong Kong or Europe because of the Mainland’s high
import tariffs and consumption taxes.

70 Pål-Andre Pedersen, Heavy Water International 2008
71 Ernst and Young report: China. The new Leap of Luxury
The%20New%20Lap%20of%20Luxury_Eng%20(Final).pdf Date 10.04.08
72 Ernst and Young report: China. The new Leap of Luxury
The%20New%20Lap%20of%20Luxury_Eng%20(Final).pdf Date 10.04.08
One of the marked differences between China and more mature market is the type of luxury goods is still very much item driven, in other words meaning consumers search for the latest collection or product. In developed markets consumers tend to seek experiences that pamper them, such as a luxury holiday. Another difference between China and developed markets is the approach of many global luxury firms to the Chinese market. Many international firms works with local partners to establish their brands, like Heavy Water International looks after a distributor in Shanghai. This is a route they might not have taken if they were to do business in a more developed market. Another issue that is complex when doing business in China is brand advertising and promotion. The communication system is comparatively primitive according an article from Ernst & Young, and advertising opportunities are limited by the government. Today companies who sell luxury goods have to use their storefronts to connect with Chinese consumers, which increase the importance of new store locations. In addition to storefronts some firms have found the success in promoting their brands and products at large events, cocktail parties and at different happenings in the larger cities in China. Many firms in China have also found out that the Chinese press is willing to help promote products, which usually is not the case in other countries.73

4.7 Country of Origin Effect

The country of origin is the country of manufacture, production, or growth of the product. Country of origin represents labelling, packaging, logo or advertising that makes a statement, claim or implication about which country goods come from. The most common claims are ‘Made in Norway’, ‘Product of Norway’—or similar representations about goods from other countries. The purpose is to inform the ultimate purchaser in the imported country, e.g. China, of the country in which the imported product was made. COO is defined in an inclusive way to ensure the protection of a product.

4.8 Opinion Leaders and Trend Influencers

When it comes to opinion leaders and trendsetters/trend influencers many of our interview objects has stated that they play an important role when it comes to the adoption process of a product in the Chinese market.

The adoption process consists of different stages a consumer goes through before he decides to accept or reject a product. The five (5) different stages a consumer goes through before making his final decision if he should accept or reject a new product are:

1. Awareness: The consumer becomes aware of a new product, but does not have information about the product.
2. Interest: The consumer is stimulated to acquire information about the product.
3. Evaluation: The consumer evaluates if he/she should try the product.
4. Trail: The consumer tests the product to create a better impression of the product values.
5. Adoption: The consumer decides to become a steady user of the product.

It should also be mentioned that when a product requires more of an investment in the form of finance, the more a consumer will become involved in the different stages, such as gathering more information about the product. Example of such a scenario might be when a consumer is considering buying a car, which will require more of a financial investment and therefore putting more time and effort into finding the better choices. Other products seen in the daily life does not require this much of a consumer and therefore uses a lot less time and effort when gathering information.
Primary Data Findings
5. PRIMARY DATA FINDINGS
Our primary data was obtained via in-depth interviews with distributors, restaurant/bar managers, market specialists, business lawyers and a wine boutique owner. Additionally we also have some information obtained through e-mail interviews with Heavy Water Internationals management. Through our work with this thesis and our life as students in Shanghai we have also had some firsthand experience with the high-end clubbing scene. Our findings will be presented in sections according to the line of business the people we interviewed were in. All statements presented where made by the interviewees, except for the section where we share our own experiences. Summaries of all the interviews can be found in the appendix.

5.1 Restaurant and Bars
Interviews conducted with Mr. Alex Harper (former bar manager at The Bund Brewery), Mr. Skyy Wang (operating manager at M2) and Mr. Lion Diao (Upstairs manager at Park 97).

5.1.1 Clientele Drinking Habits
The main differences in drinking habits are dependent on where the alcohol is being consumed (bar or club) and who is drinking it (Chinese or western clientele, women or men).

Mr. Harper gave us an overview over the bar scene and Mr. Wang gave us an overview of the clubbing scene.

Chinese men who drink in bars tend to prefer drinking beer. Chinese women drink generally very little and often tend to go with the choice of drink of their men. Mr. Harper has the impression though, that as the Chinese middle class grows, vodka based drinks will become more popular. He also feels that the younger Chinese generation (25-35) are adapting to western drinking trends faster than the older generation. Western people drink more beer in the bar type establishments than they do in lounges or clubs, where the preferred drinks are vodka based.
The clubbing scene is quite different with regards to alcohol intake. Chinese consumers drink mostly champagne or Whisky (usually Chivas) mixed with green tea or sports drinks. Foreigners tend to prefer cocktails, shooters or a bottle of Vodka or Champagne. Many Chinese consumers are still a bit skeptical to vodka based drinks as they think it is too strong, but this is slowly starting to change. As an example Mr. Wang told us that 8 years ago, when he was working at park 97, Chinese consumers didn’t know anything about drinking shooters, and cocktails, but that they have now partially adopted western drinking habits. This is especially true for the younger generation of Chinese, who are generally more willing to try new things.

“Today the Chinese consumers are more educated in what to drink and they adapt new drinking habits more easily”- Skyy Wang, M2

Chinese consumers are generally eager to show off their wealth by having expensive bottles and fireworks at their tables.

The clientele at Shanghai clubs like M2 view Vodka as a high-class product. Some of the most popular brands at this date are: Grey Goose, Belvedere, Smirnoff, Absolut, and Stolichnaya. Mr. Wang emphasized though that many of the dominating vodka brands have been around for quite some time, and he feels that new exiting brands would be welcome in the market.

5.1.2 Possible Distributors
Mr. Harper gave us the names of two (2) distributors that deal with spirits: Ezee Beverages and Typhoon Spirits. Of these two he was particularly happy with Typhoon Spirits because of their professionalism, stating that their language skills (English) are excellent and that their response time and flexibility with regards to logistics are beyond par.

Mr. Wang informed us that M2 is using a distributor named Barika. This is a large Shanghai based distributor that frequently arranges and sponsors event parties at M2. Mr. Wang emphasized the importance for M2 that they are linked up with a distributor that supports the club. Another reason for them to choose Barika was their portfolio which includes many “black label” products. Well known and high quality products are more likely to attract customers.
Mr. Diao did either not have the authority or knowledge to tell us anything with regards to distribution.

5.1.3 Brand and Merchandize Protection
Mr. Harper raised the issue of brand protection. He told us of how many of the high-end spirit brands tend to be pirated. This could happen in a variety of ways, one of the more popular being to save the empty bottles, and refilling them with cheap, low-grade spirits. Another way being that the bottles are copied.

5.1.4 Public Relations and Marketing of the Heavy Water Vodka Brand
Mr. Harper thinks that the celebrity factor surrounding the Heavy Water Vodka brand could prove to be very valuable in selling the merchandize to younger Chinese generation (25-35).

When asked how he would market a brand like Heavy Water Vodka in Shanghai, Mr. Harper told us that he would primarily focus on establishing relations and distribution to the clubs and restaurants located on The Bund such as Bar Rouge, Lounge 18, M on The Bund, Glamour Bar, New Heights and Attica. He would then proceed to make a list of the hottest spots in Shanghai, and make an approach strategy, aiming for the most desired spots first. The clubs he mentioned as relevant in this regard where M2, G+, Sugar, Park97 and Mao. He also suggested some of the high-end hotels in Shanghai, like Meridian, Hyatt, Shangri-la, Ritz Carlton and SAS Radisson.

5.1.5 Bottle Design
With regards to design of the Heavy Water Vodka bottle, Mr. Harper brought forth some interesting perceptions. Because of the bottles large circumference, it is not very suitable for a quick-rack. He also would have liked the bottle to be slimmer and higher, to give it a more majestic appearance. He did however like the design, and found it unique and fashionable. He also drew a parallel Henrik Gin bottle, which is a popular spirit.

5.2 Market Specialists
Interviews conducted with Henning Strandås (Voss brand manager) and Christopher Potez (marketing director Jade Set, former marketing director of Solid XS)
5.2.1 The Chinese Spirits Market
Mr. Potez states that the biggest markets in terms of sale in the alcoholic beverage industry are located in cities like Beijing, Hang Zhou, Guangzhou and Nanjing, not Shanghai. Working from Beijing might be a wise move, as most decision making agencies are located there. If Heavy Water International succeeds in markets that has high sales volumes, it will provide a better foundation for further expansion.

Mr. Strandås stated that whisky fills the same role for the Chinese customers that vodka fills for western customers. Whiskeys like Chivas are commonly mixed with green tea or sports drinks, and are very popular at for example clubs and KTVs (Chinese karaoke). He feels that a big barrier for Heavy Water Vodka will be the local competition in the high-end market.

5.2.2 Considerations when Choosing Distributor
Mr. Strandås emphasizes the importance of finding a distributor that is well connected in the market which Heavy Water International is planning to target. A potential distributor must also have the expertise necessary help the brand establish itself. Furthermore Mr. Strandås suggest finding a distributor that has no direct competitors to the Heavy Water Vodka brand in their portfolio. The portfolio should instead consist of products that complement Heavy Water Vodka.

It is important to maintain a close relationship with the distributor. Daily contact is preferable as misunderstanding will arise often due to cultural and lingual differences. Most business meetings are however conducted in English. It is important to find a distributor who knows how to do business in English, as a lot of the clubs that Heavy Water International will be targeting have western owners.

When you are a small brand, the distributor chooses you, not the other way around. This is largely due to the uneven power balance between the brand and the distributor. In these circumstances the distributor are holding all the cards, in form of: Market knowledge, contacts in the various venues, distribution network and sales personnel. They are usually also better qualified to handle the local mafia that operate in the alcohol industry.

Mr. Potez stated that what Solid XS did was to find a local distributor and only have them in charge of the distribution, keeping marketing and sales within the
company. This was done to keep the brand image consistent and make sure that there was no deviation from the original brand image they wanted to set. Mr. Potez came with an example based Absolute Vodka of how things can go wrong when using one or more local distributors to do marketing for you:

Example: Absolute Vodka uses one or more local distributors in the Chinese market and thus the marketing becomes very inconsistent and the brand gets over exposed. The result is that the Absolut brand is now seen as a less exclusive brand.

The same thing happened with the Solid XS brand. They aimed for the super premium segment and each bottle was priced at around 1000 RMB when it first entered the Chinese market. Since then it has dropped to around 700 to 800 RMB. One of the reasons for this is inconsistent marketing. Too many events over short periods of time and poor localization of the events have also contributed to the mismatch in marketing strategy and actual results.

Mr. Potez now arranges the events for Grey Goose in Shanghai, which he limits to one event per month to ensure that there is no over exposure of the brand.

First it is important to establish the brand, and as the consumers become adapted to your product it is important to start portraying the products heritage and where it comes from (Country of origin) so that you create a whole story around your product.

5.2.3 Suggested Venues
Mr. Strandås recommends that Heavy Water Vodka should try to gain access to the five star hotels like Hilton, Portman Ritz Carlton and JW Marriot. High-end restaurants, clubs and exclusive shops like City Shop at Portman Hotel could also be good venues that fit the Heavy Water Vodka profile. Moreover high-end bars on The Bund, high-end lounges, Xintiandi (a high-class district in the French Concession), exclusive gentlemen clubs, golf clubs and exclusive yacht clubs could be venues of interest.

5.2.4 Kickbacks and Corruption
Mr Strandås is under the impression that a lot of the high-end clubs tend to demand some form of kickback or under the table money to take in new products.
Kickbacks could be in the form of distributor sponsored events, where the sponsorship may include free merchandize and famous DJs flown in and paid for. A club may also require that a distributor/vodka brand promises to spend a set amount over a year on events. Some bar managers/owners may demand bribes to take in new products.

5.2.5 Events
Events are a common way to launch new vodka brands, and an effective method to keep interest for a brand peaked. Events are usually held at venues where the target customers hang out. Events to introduce vodka brands are usually held at high-end clubs. When launching luxury brands, it is a good strategy to invite people who are opinion formers in the segments that you want to target. Events like these are more effective if the people who attend feel privileged to be there, so event organizers shouldn’t make it too easy for just anyone to get in.

The difference between Beijing and Shanghai is that there are few celebrities situated in the Shanghai area. It might therefore be difficult to find a local celebrity to endorse Heavy Water Vodka in Shanghai in a way that the local crowd can relate to. This makes it harder to create the “right” VIP lists for events in Shanghai. Many of the high-profile movie celebrities and artists are primarily situated in Hong Kong and Beijing.

Rich Chinese people tend to go out early in the evening and go home around 23.00 to 24.00. So clubs might have two separate invites for their events, where they invite the richer Chinese people earlier in the evening maybe around 20.00 and then another invite for the international crowd around 22.00 to 23.00 as western consumers usually go out later in the evening.

5.2.6 Marketing the Heavy Water Vodka Brand
Mr. Potez feels that the market will adopt a product faster if it is endorsed by locally respected Chinese, as opposed to famous westerners. He also mentioned that the marketing strategy should be tailored to each local market by including a local celebrity to endorse the product.

“The Chinese people want to see themselves and feel that they are the focus” - Christopher Potez, Jade Set
Trendsetters and urban opinion leaders that might be good to be associated with: musicians, artists, gallery owners, bankers and athletes.

Western consumers will do what they have learned back home and the Chinese will do what the trendsetters do. So it’s important to find locally, respected trendsetters to influence the Chinese consumers. An example Mr. Potez used was that Solid XS paid the right people with money and or alcohol to be seen with the products at specific high-end nightclubs.

5.3 Wine Boutique Owner – Karl Leung
Interview conducted with Karl Leung (CEO Wine Passion LLC), former wine importer with his own company in Beijing.

Mr. Leung told us that wine and spirit is inseparable for the Chinese consumers. They prefer Whisky, but in some occasions they buy high-end vodka. This is especially true for the holidays, like the Golden Week Holiday or the National Days.

Mr. Leung emphasized the importance of the history behind a brand for the Chinese consumers. The story behind the “Heavy Water Vodka” name should be included in a potential marketing strategy, as stories of heroes like the heroes from Telemark appeal to the Chinese consumer.

In Mr. Leungs experience, new players in the alcohol import business often underestimate the cost of logistics. Transportation costs in China are quite expensive, especially if the company is to have distributors in provinces like Chengdu (according to Mr. Leung “the” place to live if you are rich). Mr. Leung advises Heavy Water International to consider distribution cost and the channel costs in the different cities in China.

Today there are several global and well-know distributors in Shanghai, Beijing and Hong Kong. Mr. Leung mentioned Absolut, Stolichnaya and Wyborowa which has all been signed within big distributors such as LVMH, Pernod Rocard, MHD, Horeca and Maxxim. Although vodka sales are on the rise, they are still only a fraction of whiskey sales. Mr. Leung is convinced that Vodka will continue
its growth in the Chinese market, and is therefore also selling it in his own wine boutique.

5.4 Distributor – Cem Buze (MMB)
Cem Buze regards the following factors as vital if Heavy Water Vodka is to succeed in the Chinese market:

- “Face 2 Face” interaction with distributor and customers. Preferably on a daily basis.
- Building a brand name – example, using Chinese celebrities to promote the brand.

To keep a close eye on the distributor moves and make sure everything is done how it is supposed to.
- Personal relations – it’s more than just selling, it’s building “GUANXI”.

Example: A cold winter’s day in February, Cem Buze was about to deliver six (6) cases of fine wines to a local restaurant outside of Shanghai. Unfortunately the bad weather had made it impossible for the restaurant owner to show up in time to receive the goods. Cem Buze had to wait for seven (7) hours before the restaurant owner was able to show up. The restaurant owner took that the patience Cem showed as a sign of loyalty, proving that he wished to make a stronger bond between the two parties, and that he was not only seeking profits.

Cem Buze recommends that Heavy Water International find a small and dynamic distributor, which can provide the brand with the attention and stability during the first phase of Heavy Water International’s entry into China.

5.5 Business Lawyers
Interviews conducted with Shanshan Xu, Law Professor at Fudan University and currently partner in Haihua Yongtai Law Firm, and Lars Berge Andersen partner in Wikborg, Rein and Co. (International law firm).

Mrs. Xu thought it important that Heavy Water International check out any potential distributor partner in China thoroughly to check if they operate legally. There have been cases where brands in the wine and spirits business have got into trouble with the law on accounts of their distributors actions.
If the Heavy Water Vodka brand is to be introduced to the Shanghai market, it is very important that the brand is registered prior to commencing any marketing activities. The law in China states that the first to register a brand name is entitled to it, regardless if they make the product or not. This could cause Heavy Water International to lose all rights to the Heavy Water Vodka brand name in China.

Mrs. Xu was kind enough to provide us with many of the most relevant laws and regulations concerning alcohol legislation. This information is provided in the appendix.

Mr. Andersen made us aware of the following:

- There are local laws that need to be adhered to when establishing a business, in addition to general laws that apply for the whole of China
- Special licenses that need to be acquired on order to distribute and import alcohol are: “Alcohol sale license” and “food safety licenses”. There is also a need to send staff on a government organized training course

Mr. Andersen emphasised three main entry modes on the Chinese market:

1. Direct export
2. Representative office
3. Wholly Foreign Owned Enterprise

These entry modes are thoroughly described in the interview in the appendix.

General points of importance:

- Mr. Hansen emphasized the importance of always being in full control of customer relations
- Never short any orders
- Maintain control over the money flow
- Company profit is easy to take out of China, but invested capital is not
- Implement a bottle retrieval system (this will help minimize pirating potential of the Heavy Water Vodka brand)
5.6 Primary Data Findings Summary

The main differences in drinking habits are dependent on where the alcohol is being consumed (bar or club) and who is drinking it (Chinese or western clientele, women or men). The younger Chinese generation (25-35) are adapting to western drinking trends faster than the older generation.

Mr. Harper recommended Typhoon Spirits as a potential distributor partner to Heavy Water International. He himself has been impressed with their professionalism, stating that their language skills (English) are excellent and that their response time and flexibility with regards to logistics are beyond par.

The issue of brand and merchandize protection was emphasized by many of the interviewees. Possible solutions included further securing the bottle cap and implementing a bottle retrieval system.

It is important to focus on establishing relations and distribution to the following places:

- The exclusive bars, clubs, hotels and restaurants in downtown Pudong, Xintiandi (French concession) and The Bund
- Exclusive clubs (gentleman clubs, golf clubs and yacht clubs)
- Exclusive wine & spirit boutiques

The venues above are particularly suited for Heavy Water Vodkas high-end profile:

A potential distributor must have the expertise necessary help the brand establish itself and also be well connected in the Shanghai market.

When you are a small brand, the distributor chooses you, not the other way around.
To keep brand image consistent and ensure that marketing strategy is followed, it is a good idea to keep all marketing related activities in-house, only outsourcing import and distribution to a potential distributor.

When entering new clubs and bars, there is often a very thin line between normal business transactions, and activities that may be perceived as corruption.

Events are a common way to launch new vodka brands, and an effective method to keep interest for a brand peaked.

The market is more likely to adopt a product faster if it is endorsed by locally respected Chinese, as opposed to famous westerners. They could be musicians, artists, gallery owners, bankers or athletes.

The story behind the “Heavy Water Vodka” name should be included in a potential marketing strategy, as stories of heroes like the heroes from Telemark appeal to the Chinese consumer.

Personal relations – it’s more than just selling, it’s about building “GUANXI”.

Heavy Water International should check out any potential distributor partner in China thoroughly to check if they operate legally. There have been cases where brands in the wine and spirits business have got into trouble with the law on accounts of their distributors actions.
Strategic Analysis
6. STRATEGIC ANALYSIS

In this part of the thesis we will first describe the most important aspects of entering the Shanghai market. Furthermore we will explain some key factors on how to choose distributor. Then we will analyze the internal and external part of Heavy Water International and their business environment here in Shanghai. This will provide us with the necessary background information to create a marketing strategy for Heavy Water International in Shanghai.

6.1 Entry Vehicles

This information is based on the interview with Lars Berge Andersen, a law expert at Wikborg, Rein and Co in Shanghai.

Mr. Andersen explained that there are particularly two (2) main models for entry on the Chinese market that could be potential for Heavy Water International to use. These are:

1. Representative office

This option takes about one (1) month to set up. There is no need for share capital. In essence this company form is just an extension of the mother company in Norway and its legal capacity is very limited. A representative office is not allowed to have any form of revenue, and may only involve itself in marketing activities. Expats are allowed to work for a rep. office, but to employ Chinese manpower, Heavy Water International Norway must make a deal with FESCO (Foreign Enterprise Service Co.), a human resources services provider.

The idea here is that Heavy Water International could set up a representative office in Shanghai to do all marketing activities, such as handling contact with customers and work in collaboration with a Chinese distributor/trading company. There will most likely be a need to engage a Chinese distributor/trading company to handle import of Heavy Water International’s merchandize, as most of the potential customers like Bar Rouge, M2 and Attica do not have their own import licenses. There would need to be a contract between the Chinese distributor/trading company and Heavy Water International Norway with regards to arrangements tied to the importing issue and how big a cut of profits the Chinese company can keep for themselves, since the rep. office is not allowed to
have any income. Basically the rep. office would handle all the marketing activities, and in that way have full control over the customer base. The profits from sales would be transferred from the distributor to Heavy Water International Norway.

Since a representative office has no income, there is no income tax. Instead representative offices pay 10% tax on annual expenditures.

The advantage of choosing a representative office model for market entry is fast to set up, and requires little investment to start off.

2. Wholly Foreign Owned Enterprise (WFOE )
The process of setting up a WFOE follows the steps outlined in “the process of setting up shop” paragraph further up. The selling point for setting up a WFOE instead of a representative office is that WFOEs are legal entities, and may do business in China.

There would be little point in setting up a WFOE, if Heavy Water International is going to collaborate with a Chinese importer/trading company when it comes to import and distribution, as a representative office will be of the exact same use.

One way to do it could be to set up a WFOE named for example Heavy Water China, and then apply for the appropriate licenses needed to do business (import license, distribution license + any other regional specific licenses needed).

**Figure 7** Representative Office Setup

This is definitely the most expensive option as it requires more money to set up. Minimum stock capital is set at approximately 140,000 USD. There is also a need for more expertise in fields like international trade, marketing and cross-cultural communication. A positive element is that Heavy Water China would be in full
control of the value chain. And over time, the representative office set up option may end up costing a lot of money too, considering that a Chinese distributor/trader would not do the work related to importing and distribution for free. There is a 25% flat taxation level for WFOEs.

These are the two main models for entry on the Chinese market. We would recommend that Heavy Water International should enter the Chinese market using a representative office. The reason why we recommend this type of entry is because it is easy to set up as it takes approximately one month and does not require any large investments. Also it is a good way to get a general idea on how the Shanghai market works. If this market proves to be too difficult or immature for them it would not cost them much to withdraw when using the representative office. If Heavy Water International is sure they want to enter the Shanghai/Chinese market and are willing to invest heavily, we would recommend the Wholly Foreign Owned Enterprise entry vehicle as we think this is better suited for a long term commitment. By using the Wholly Foreign Owned Enterprise, Heavy Water International would keep total control over the daughter company and their business transactions.

6.2 Key Factors for the Right Choice of Distributor

There is a range of key factors that a potential Chinese distributor must satisfy in order to be a good partner for Heavy Water International. Our primary research data has provided us with information as to what these key factors might be. We have also based ourselves on Markedsføringskanaler by Gripsrud and Nygaard\(^{74}\) to identify additional key factors. We will begin with presenting the key factors that we have identified through our interviews and end off by supplementing with key factors identified by Gripsrud and Nygaard.

By “key factors” we mean attributes of a company.

\(^{74}\) Gripsrud and Nygaard, Markedsføringskanaler. 149-178:2005
6.2.1 Pål-Andrè Pedersen, CEO Heavy Water International

Through our interviews with Pål-Andrè Pedersen, CEO of Heavy Water International, we have been made aware of the following key factors a potential distributor should adhere to:

- The distributor has to be a strong local player
- The distributor must have knowledge about the Chinese market
- Relations /guanxi in the Chinese market is important
- Rather small and dynamic than big and slow
- Serious distributor with focus on premium to mid premium outlets
- Has to have some premium brands in their portfolio
- Has to have a wide range of outlets, bars and clubs

According to the CEO Pål-Andrè Pedersen (interview 2008), a potential distributor in Shanghai must be a strong local player with good knowledge about the Chinese market. Strong ties to the local government will make the registration process less cumbersome. Guanxi in the Chinese market is essential, as having close connections to the government, high-end clubs, restaurants and hotels is considered one of the most important door-openers for foreign companies establishing their brands on the Chinese market. Since Heavy Water International does not have this Guanxi itself, it must rely on the distributor.

By choosing a small or mid-sized distributor, Heavy Water International will hopefully obtain a more privileged position in their portfolio, than they would have with a large distributor. The idea is that the Heavy Water Vodka brand will play an important part in the distributors business.

Mr. Pedersen regards it as important that a potential distributor has other premium brands in their portfolio. There are several reasons for this:

- It is an indicator to Heavy Water International that they are dealing with a serious player
• By having other premium brands in their portfolio, a potential distributor may be able to create synergy effects by combining brands at events

• A distributor with premium brands in their portfolio is more likely to be taken seriously by purchasers (clubs/bars/restaurants/hotels)

• The distributor will already be proficient in managing premium and luxury brands. This translates in less time needed by Heavy Water International to educate the distributor

It is important to emphasize that none of the other premium brands in the distributors portfolio should be direct competitors to the Heavy Water Vodka brand.

6.2.2 Lars Berge Andersen, Partner at Wikborg, Rein & Co
Mr. Andersen mentioned the following key factors that a distributor should have:

• Must have the necessary import licenses and certificates for alcohol import and distribution

• Distributor must strictly adhere to Heavy Water Internationals marketing policy

• System for bottle tracking

It is vital to check that the potential distributor actually has the needed licenses to operate as an importer and distributor. There have been cases where foreign companies have cooperated with “distributors” that didn’t have the required papers, which ended in lawsuits. This is a potentially costly affair that can be easily avoided by doing a background check.

It is of paramount importance that the distributor is 100% dedicated to following Heavy Water Internationals marketing policy. If the distributor is given too much control (or any!) over marketing, they might want to sell to a broader line of customers (maximizing short term profits). This may result in over-exposure of the brand and ruin the exclusive image that Heavy Water International has worked so hard to gain and uphold.
By implementing some kind of bottle deposit system, it can be assured that a minimum amount of bottles are lost. If the distributor loses track of too many bottles, it opens the door for the pirating industry. Even broken bottles should be collected.

6.2.3 Additional Key Factors
The additional key factors according to Gripsrud and Nygaard in “Markedsføringskanaler” are: 75

- Amount of years in the business
- Growth
- Solidity
- Profitability
- Cooperative willingness
- Reputation
- Product range and market position

The first four bullet points all describe a potential distributors drive and stability in the market. How successful they are in these fields will determine how suited they are to taking on a new brand that needs attention and follow-up in the establishing phase.

The reason why many of the interview objects recommend finding a small to medium sized distributor is that a power-balance must be maintained. By siding with a big distributor, Heavy Water International loses a lot of its bargaining power, and cooperation might become difficult. A smaller distributor might be more willing to cooperate with Heavy Water International on agreeable terms.

To get access to the high-end outlets, a distributor is dependent on having a good reputation. A distributor with a diversified portfolio and a good market position is more likely to already have access to many of the venues where Heavy Water International would like to place its merchandize.

6.3 Distribution Strategies
As previously explained, exclusive distribution means that there is very restricted number of intermediaries. This distribution strategy often includes exclusive distribution rights with the aim of creating a stronger bond between the seller and reseller. According to Mr. Pedersen (Interview 2008), Heavy Water International demands exclusive distribution. This is because it is important that Heavy Water International gets full focus and commitment with the chosen distribution partner. It’s also very difficult to administrate a more complex distribution set-up especially regarding prices and approach to the market.

6.4 Principle- Agent Theory
The reason for pre-contractual opportunism is that it is hard and expensive to get information about the different distributors that seek a partnership.76

The different distributors can be interested in hiding their information and their real motives when entering a partnership.

Possible hidden motives for the chosen distributor can be a motive of short term profit, meaning that the distributor might take advantage of Heavy Water Internationals reputation and attention globally to gain short-term profit on their own behalf. Another hidden motive could be that the distributor wants to copy Heavy Water Internationals product and sell it outside the partnership. Hidden information can be seen as a problem as the distributors can give faulty information and claim that they have specific expertise, industry knowledge or buyer relationships which they do not have. The consequence can be that Heavy Water International might choose a distributor on the wrong foundation. In a difficult competitive environment a distributor might take in Heavy Water Vodka just to delay them a year or two, as Heavy Water Vodka might be a direct competitor to some of the other premium brands in their portfolio. There is a risk that the chosen distributor will use the time and money, invested by Heavy Water

International, in the promotion and introduction phase of Heavy Water Vodka to promote other products in their portfolio.

The most suitable strategy for Heavy Water International to avoid this opportunistic behavior is for them to use a screening strategy.

According to Christopher Potez the opportunistic behavior can be avoided by interviewing several distributors before choosing the right alternative. The example he gave was when Solid XS entered the Chinese market. They interviewed four (4) different distributors to be able to establish which of them would be best suited for Solid XS.

Another important factor on how to avoid opportunistic behavior is to do a background check on the distributors that show potential. When doing the background check we would like to point back to the previous chapter about key factors as these key factors can provide sufficient information about a distributor to avoid any further problems.

6.5 Internal Analysis
We will here elaborate on the internal factors of Heavy Water International. The point of the internal analyses is not to further describe all of Heavy Water Internationals qualities, but to give short summaries of their current strategies and try to give a short explanation to Heavy Water Internationals internal weaknesses and strengths. We will base the analysis on information gathered through our interview with Pål-Andrè Pedersen (E-mail interview 2008) and through the background information (Heavy Water Vodka sales and marketing presentation) and a letter given to use by Heavy Water International.

6.5.1 Attitude, Competence, Embodiment- model (ACE)
We will use the ACE model to create a general idea about Heavy Water International’s foundation for a potential expansion to the Shanghai market. By examining Heavy Water International’s strengths and weaknesses it’s easier to decide on the correct strategic decisions.
6.5.1.1 Attitude

6.5.1.1.1 Market orientation

According to Solberg market orientation is a company’s ability to collect market information and then to use this as a basis for concrete decisions and actions. 77

Heavy Water International uses a “foot trenching strategy” where they have a brand ambassador, which responsibility is to go from nightclub to nightclub promoting Heavy Water Vodka. While the ambassador promotes Heavy Water Vodka he is also near the consumers and the distributors and thus able to collect valuable information about the market he is in. Through this strategy Heavy Water International can orient itself within a market and on the basis of this will try to convert the information into decisions and actions. Heavy Water International can be described as a “customer oriented organization”. Studies have shown that these kinds of organizations sometimes tend to lose focus on equally important things like export development. Therefore we would advise Heavy Water International to keep their focus on the customers, but also keep an eye on other factors that does not have to do with the consumer, such as profitability, where the competitors are compared to Heavy Water International and their distribution infrastructure.

6.5.1.1.2 Risk assessment

Heavy Water Vodka was introduced in New York City in 2006, and has now expanded into eight (8) different European markets together with Los Angeles and Las Vegas in the United States. According to Pedersen 78 Dubai, China, Russia, and India are concrete markets that Heavy Water International wants to expand to during 2008.

The stock holders demonstrate loyalty with their long term ownership in Heavy Water International, and they wish to participate in the future expansion plans. 79 Therefore we believe that their willingness to accept risk can be defined as high.

77 Solberg, Internasjonal Markedsføring, 15:2006
78 Letter to Knut Øksby 04.01.2008
79 Letter to Knut Øksby 04.01.2008
6.5.1.1.3 International business culture and understanding

Heavy Water International is cooperating with importers and distributors in all markets and need a very small amount of staff. Totally in Heavy Water International there are nine (9) employees. Out of nine (9) employees seven (7) of them travel around on a regular basis. The total number of offices is nine (9).

“CEP Pål-Andrè Pedersen has worked more than nine years within the beverage industry and has vast experience within the vodka segment, having worked closely with Stolichnaya for a good portion of that time. For the last four years, he was Managing Director for Allied Domecq—Netherlands with responsibility for eight European countries. During his term, Pedersen achieved organic growth in all markets and his team successfully built Kahlua, Malibu, Sauza, Stolichnaya, and Courvoisier to become leading brands in their markets. Pedersen was also responsible for Atlas—Allied Domecq’s worldwide leadership program.”

According to Mr. Pedersen (interview 2008) Heavy Water International have no particular experience about the Chinese market, but they have an understanding about the big picture.

Based on the information we had available about the employees in Heavy Water International, we define their understanding of international business culture and understanding as good, but of the Chinese market as moderate.

6.5.1.2 Competence

6.5.1.2.1 Marketing

Heavy Water International has previously not used money on traditional marketing such as ads in magazines, television commercials, and sponsorships. However they tend to use more innovative thinking when it comes to marketing going outside the box. Utilize new media to deliver value-oriented content to the target consumers. The marketing channels Heavy Water International will use includes Itunes, Ifilm, Youtube, CD and DVD’s where they will broadcast a series of video podcasts. In these episodes Heavy Water International will introduce a

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80 Heavy Water Vodka (sales and marketing ppt)
new signature Heavy Water Vodka cocktail. Heavy Water International has a project called the D20 Concept, which entails that they will publish videos of talented bartenders mixing cocktails with Heavy Water Vodka through the different marketing channels already mentioned above. This also creates a unique chance for the bartenders to market themselves in a new and creative way.

“In addition to driving awareness and trial, this program can deliver a new point-of-contact for distributors and sales forces to encourage on-premise venues to buy Heavy Water Vodka and gain market support from the brand by promoting their bartenders unique talents—showing them to be Heavy Thinkers.”

6.5.1.2.2 Cooperation with their partners

Heavy Water International has already established a broad network of cooperative companies in the different markets. Their cooperative partners consist of only serious actors like Engelstad in Norway, A brand new day in Holland, Philipsson and Söderberg in Sweden, Southern wine and spirit and MHW/Jersey in the United States. They also have full access to all the “Systembolag” outlets in Sweden (government owned alcohol outlets) from April 2008.

Heavy Water International shows that they have competence when creating a network, as they work directly with Club owners and restaurant owners of A-list venues in the United States.

6.5.1.2.3 Language and cultural competence

According to the interview with CEO Pedersen (2008), Heavy Water International does not have any competence when it comes to the Chinese language and Culture. Their International business language is English and all reports from the central management are made in English.

6.5.1.3 Embodiment

Solberg (2005) states that it is firstly the company’s internal engagement and support to the internationalization process that decides if a company will succeed in its abroad activities, or not.

81 Heavy Water Vodka (sales and marketing ppt)
Solberg (2005) say it is a central key factor to have a CEO that is focused not only on the home market for the product, but also on the export part of the business.

From the interview with CEO Pedersen (2008), we got the impression that he was very engaged and absorbed in making Heavy Water Vodka a success internationally.

Based on the information gathered from the interview with CEO Pedersen (2008), the boards of directors and shareholders are gathered behind the CEO of Heavy Water International supporting him in the company’s expansion plans.

6.6 External Analysis
The external analysis will be based on two models. First we will focus on the environmental influences on Heavy Water International’s business by using the PEST analysis model. Secondly we will use Porter’s five forces model to explain the market forces and determine the competitive intensity and the attractiveness of the Shanghai market.

6.7 PEST
6.7.1 Political/Legal
6.7.1.1 China’s view on alcohol
In 1998 China increased its tax rate on distilled spirits. The reason for this is that it’s believed that there is a comparatively bigger risk in consuming pure spirits, compared to weaker beverages. The government is concerned that if the intake of distilled spirits continue to rise, there will be problems maintaining civil order, and that health problems related to alcohol consumption will increase.

It is even official policy to encourage consumption of low-alcohol beverages (wine/beer), as a way to reduce the intake of purer spirits.
In some countries the combination of these two strategies has proven effective in reducing intake of high alcohol level drinks.  

6.7.1.2 Governmental laws and regulations affecting the industry

Lars Berge Andersen (interview 2008) had some good indications on what kind of governmental plans that is affecting the vodka industry in China; therefore we choose to take out a part of the interview and put it into this section.

6.7.1.3 Chinese Vodka regulations

There are no restrictions on either import/distribution on Vodka or choice of investment vehicle. There is however a need to obtain some special licenses from the Chinese authorities. One of them is an “Alcohol Sale License” from the special bureau in charge of import/export and sales of alcohol in China. The other is the Chinese “Food Safety License”. It is also required for companies that deal with import and/or distribution of alcohol to attend a state organized training course. This is of course not valid in the case of rep. office setup, as all these requirements and responsibilities will then be handled by the Chinese distributor/trading company.  

6.7.1.4 Company setup regulations

This chapter explains the details of what needs to keep in mind when registering a company in China. It explains the workings of the Foreign Investment Catalogue and the significance in being in either the encouraged, allowed, restricted or forbidden category.

To set up a company in China, one needs to first apply for a license. This is needed regardless of which business one is operating in. The process of doing so in China is more complex than it is in Norway. To get a license there is a need to fill in the appropriate license application forms, often regarded by foreigners as quite the paper mill. There is also need to perform a feasibility study that has to be provided to the authorities to show that a project is worth doing. There is always a risk that the business plan may be denied, and in such cases there exists no appeal rights. Most well prepared feasibility studies/business plans are however

82 http://www.china.org.cn/english/2006/Jan/154305.htm Date: 14.05.08
83 Andersen interview 2008
approved. After the two steps mentioned above are completed, there is a need to start a new and separate registration process, which can also be described as quite the paper mill. In the end, the process of setting up a company in China is likely to take anywhere between 3-4 months.

The Foreign Investment Catalogue is a database over different areas of business in China. It is divided into four main categories, which are: encouraged, allowed, restricted and forbidden. Anything that isn’t mentioned in this catalogue is regarded as legal. In the recent years, the catalogue has been liberalized, so that most areas of business are now open for investment by foreign investors.

Businesses falling into the encouraged category are given special incentives in the form of for example tax alleviation or cheap land, but that arrangement will be cut down by the coming New Year. Businesses in the allowed category are as the name suggests, allowed. Businesses that are placed in the restricted category need to adhere to special regulations for that line of business to be approved. There might then be a need for extra approvals by other than the usual government agencies, or it might be a requirement that the business needs to be co-owned by Chinese interest, effectively reducing potential investment vehicles to one: Joint venture. Businesses that operate in the forbidden category have no chance to establish themselves in China, regardless of any other considerations.

Another regulation imposed by the government is the labeling on the back of a product. There has to be a table of contents with Chinese characters, register design, contents and certificate of origin.

6.7.1.5 Labeling and Laws

According to our interviews with law experts, we have been recommended that Heavy Water International should examine the laws stated beneath before their entry into the Shanghai market.

These laws are provided by Mrs. Xu, interview (2008)

Article 4 Imported alcohols in Chinese market shall subordinate to the following measures:

1. Supervision and administration by the Customs;
2. Supervision and administration on sanitation, including supervision and administration on sanitation at the port (sanitation quarantine, "Sanitation Supervision and Administration Marks of Imported Food", and sanitation certification administration etc.), supervision and administration on sanitation of domestic production and operation;

3. Quality supervision and administration;

4. Supervision and administration on market operation and marketing order; and

5. Duty-collecting administration and others.

Article 6 Supervision and inspection bodies for import food sanitation and quality at the port shall exercise their duties on imported alcohol (including imported duty-free alcohol) in accordance with laws. The importers shall provide the sanitation certificate of origin for import alcohol issued by the exporting country (region).

The imported alcohol (excluding duty-free alcohol) shall be labeled in Chinese in line with the "General Standard for Food Labeling" and other relevant regulations.

Supervision and inspection bodies for import food sanitation and quality at the port shall exercise their duties on imported alcohol according to this Article. The aforementioned bodies shall attach "Sanitation Supervision and Administration Marks of Imported Food" on the qualified and subsequently issue sanitation certificate (original and duplicate), while prohibit those failing the standards from entering.

Article 12 The enterprises selling imported alcohol shall abide by the following regulations:

1. Bearing the commodities import license (copy acceptable), Customs duty-paid voucher (copy acceptable) and sanitation certificate (original and duplicate), and the imported alcohol to be sold shall be correspondingly labeled in Chinese as required in Article 6, clause 3 and with "Sanitation Supervision and Administration Marks of Imported Food" as in clause 4;
2. No forgery or alteration of quality identifications such as "Sanitation Supervision and Administration Marks of Imported Alcohol", verification marks and the Chinese label;

3. No production or sale of sham and shoddy imported alcohol;

4. No sale of smuggled alcohol; and

5. Acceptation of relevant vocational training and guiding on quality and sanitary standards.

Article 22 According to Article 6, the legally confiscated imported alcohol shall be submitted to the inspection and test of the supervision and inspection bodies for imported food sanitation at the port. The qualified shall carry the Chinese label, "Sanitation Supervision and Administration Marks of Imported Food" and be reissued sanitation certificate (original and duplicate) before being sold in domestic market through auction.

Mrs. Xu (interview 2008) recommends Heavy Water International to take contact with a Chinese Lawyer when entering the Shanghai Market. She recommended this because it is cheaper and language problems can be avoided.

6.7.1.6 Intellectual property protection

Mrs. Xu (Interview 2008) stated that an important challenge that Heavy Water International must overcome when entering China is the challenge according to intellectual property rights. Since China joined the WTO (World Trade Organization), China has had to enforce their Intellectual Property Protection to comply with World Trade Organization standards. This does not immediately mean that it has solved China’s problem with counterfeiting and piracy.84

6.7.1.7 China's focus on improving the alcohol market

According to China Daily, in 30.09.2006 a three-month campaign was launched to keep China’s alcohol market safe and on the right track. The focus of this campaign was on the regional protectionism, fake products and uncertified producers and retailers.

84 http://www.theabi.org.uk/press/p0308.htm Date 14.05.08
The three-month campaign came as a reaction to the many reports on fake alcohol poisoning. One such occurrence took place in Guangzhou in May 2004, claiming the lives of 11 people. 85

To avoid Chinese copying of Heavy Water Vodka Mrs. Xu suggested that Heavy Water International should change the bottle cap in order to secure the bottle and its content. This would also be a criteria that the Chinese Government will examine when Heavy Water International register the product in Shanghai. (See the laws above - "General Standard for Food Labeling"). 86

6.7.1.8 Trade tariffs and Taxation

According to Mrs. Xu (interview 2008) the most important barrier for Heavy Water International when entering the Chinese market is tariff. Today China has a general rate and a preferential rate at tariff for imports. The general tariff applies to goods from countries and regions that have not signed an equal tariff agreement with China. The preferential tariff rate refers to goods from countries and regions that have signed such agreement with China. The average import tariff rate is currently at 10, 4 %. Export tariffs range between 0 to 20 %. We do not know if Norway and China has such an agreement.

Foreign-invested enterprises and foreign enterprises have to pay income tax on their income from the production, business or another source in China. Also, foreign-invested enterprises that have establishments in China have to pay incorporate tax of 30 % and local income tax of 3 % on the income from business operations and on profits. Tax on foreign-invested enterprises is paid in advance every quarter of the year.

According to Wikborg, Rein & Co Mr. Anderson (interview 2008), there is a 400% import duty on wine and spirits into China.

85 http://www.shore.ac.nz/publications/Taxation%2013.9.06.pdf Date 14.05.08
86 Hand out Chinese Law, 121:2007
6.7.2 Economic

6.7.2.1 Economic growth rate

Since 1978 the GDP has grown about 9% on average, an aggregate increase of some 700%. Foreign trade growth has averaged nearly 15% over the same period or more than 2700% in aggregate. There has been a flood of foreign direct investments into China throughout the past decade. In 2002 China became the first country to attract more foreign direct investments than the United States since 1980.

According to Lieberthal and Lieberthal, China's economy will be nearly the size of Germanys by 2008, if future growth resembles that of the last five years. 87

Today China is the third largest market for luxury products, and with an enormous growth of luxury products it is expected that China and Japan will overhaul USA and become the largest markets for luxury products within 2015, according to Times global luxury report. China also has the world’s largest money reserves, and is the world second largest oil market and number three when it comes to exporting. 88

6.7.3 Social

6.7.3.1 Demographics and Geographic’s

In order to illustrate the size of the Chinese market we have included some information from the CIA world report. China's total population today is at approximately 1.314 billion. 89 The Chinese urban market can be divided into three-city level. First level: Consist of smaller population with lower GDP per capita. Examples such as Yancheng and Deyang. Second Level: Medium-smaller population has a medium-higher GDP per capita. The other group within the second level consists of medium and larger population with medium and lower GDP per capita. Example: Wuxi, Xiamen, Shenyang and Changsha. Third level:

88 http://e24.no/eksklusiv/livsstil/article2029631.ece Date 15.05.08
89 Emma Q ppt “Bi Bachelor 4” Page 23
Consists of larger populations with higher GDP per capita, such as Shanghai and Beijing. This information might help Heavy Water International identify other interesting markets in China.

Shanghai is the largest city in China, with a total population of 16.74 million living within its boundary of 6340 square Km. in 2000. Shanghai is also one of the most developed metropolitan areas in China. It produces 5.16% of China’s National GDP, with a local per capita GDP of US$ 4,500 in 2001. Shanghai’s demographic pattern is the most advanced one in China, and very much close to what prevailing in many developed countries.

6.7.3.2 Culture and relations (Guanxi)

“Powerful people are not bending the rules for cash. They are doing it because of the inherent obligations they perceive in their relationships with the recipients of their favors.”

There are several important groups to have Guanxi with. The groups that are the most important to establish Guanxi with according to Mr. Potez (interview 2008), are government officials, business partners, police and the mafia. This is one of the key factors with the distributor because they have the distribution networks setup, the sales personnel, the knowledge about the (local) market, the contacts with the different clubs and the relationship with the mafia, which is especially important when it comes to the alcohol industry in China.

Mrs. Xu (interview 2008) said that “Guanxi” (relationship) with the Chinese Government would be a key factor when entering the Shanghai market.

Why this is so important is because when you have “guanxi” with the government the whole establishment period might be shortened down substantially as you have relations (Guanxi) within the government that can speed up the process. For example the right “Guanxi” with the right person could make the licensing of Heavy Water International’s products go faster, thus saving valuable time.

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90 Emma Q ppt “Bi Bachelor 4” Page 27
6.7.3.3 Corruption

Corruption is a problem in China. In 2005, Zheng (head of the food and drug administration), was found guilty of receiving 6.5 million Yuan in bribery and subsequently sentenced to death. This example gives an indication that China has started to look at this problem very seriously. Corruption extends to all aspects of business and is still a big issue in China.92

Mr. Strandaas (interview 2008) explained that when entering new clubs and bars there is often a very thin line between normal business transactions and activities that may be perceived as corruption. Mr. Strandaas gave us an example of a scenario that Heavy Water International could be exposed to. When trying to enter a club, they might demand cash “under the table” before they are willing to sell Heavy Water Vodka.

Many brands operate this way today, Voss Water have a policy of not to pay in front, because if you do it once then other actors in the night-life branch will know. Therefore, a good distributor that can host events and get a good deal in the high-end market is very important.

6.7.3.4 Trends

Trends in the Chinese Vodka market are duly described in the preliminary research chapter.

6.7.4 Technological

6.7.4.1 Innovation potential

According to Deputy Cheng Changfeng from the NPC, “China's alcohol industry faces two major problems in its development. First of all, the industry lacks diversification. Products made by different companies are becoming increasingly similar, which means levels of specialization and quality are sorely inadequate. Secondly, the industry needs to take the initiative to explore new, innovative

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92http://www.bloomberg.com/apps/news?pid=20601080&sid=a8LoFM2DyRbM&r efer=asia Date 14.05.08
techniques. Chinese alcohol producers pay most of their attention to marketing strategies, while neglecting product innovation.”

Lack of innovativeness even when operating in a market where the product often is used combined with others like in cocktails may be a risky path for the brands. That is because consumers who prefer vodka often want to try new brands and widen their horizon. Therefore it is important to work with innovation and development of new products to always be in front of the competitors.

6.8 Summary of Pest Analysis
There are no restrictions on either import/distribution on Vodka or choice of investment vehicle in China, but Heavy Water International must obtain the following licenses when entering the Chinese spirits market:

- “Alcohol Sale License” (from the special bureau in charge of import/export and sales of alcohol in China)
- Chinese “Food Safety License”.

Since China joined the World Trade Organization, China has had to enforce their Intellectual Property Protection to comply with World Trade Organization standards.

One of the most important barriers for Heavy Water International when entering the Chinese market is tariff. The general tariff applies to goods from countries and regions that have not signed an equal tariff agreement with China.

Foreign-invested enterprises and foreign enterprises have to pay income tax on their income from the production, business or another source in China.

Since 1978 Chinas GDP has grown about 9% on average, an aggregate increase of some 700%.

93 http://www.chinadaily.com.cn/bizchina/2006-03/05/content_556878.htm Date 14.05.08
Today China is the third largest market for luxury products, and with an enormous growth of luxury products it is expected that China and Japan will overhaul USA and become the largest markets for luxury products within 2015.

Shanghai is the largest city in China, with a total population of 16.74 million living within its boundary of 6340 square Km in 2000.

The groups that are important to have Guanxi with are government officials, business partners, police, and the mafia.

When entering new clubs and bars, there is often a very thin line between normal business transactions, and activities that may be perceived as corruption.

China's alcohol industry lacks diversification. Chinese alcohol producers pay most of their attention to marketing strategies, while neglecting product innovation.

6.9 Porters Five Forces

6.9.1 Market Analysis
Despite the apparent difference in the market segments, we still choose to define the big global brands as competitors to Heavy Water Vodka. All of these companies are able to create a sub-brand equally exclusive to Heavy Water Vodka, and their dominating position in the global market makes them a potential threat to any new intruder in the spirits market.

Porter’s five (5) forces model can help us in the analysis of the market and define the important players in it. These 5 forces determine the competitive intensity and therefore attractiveness of a market. This is an important model and one that every company who enters a new market should spend time using as it helps explain the
market forces in the desired target market\textsuperscript{94}


![Michael Porter’s Five Forces](image)

**Figure 8** Michael Porter’s Five Forces

6.9.2 The Threat of Substitute Products

As our primary research data suggest that the Chinese consumer is not yet sufficiently educated on vodka consumption and are not particularly brand loyal. Consumers are likely to choose an alternative product if the price is right or if the brand is the only available. Brand names in the Chinese vodka market are virtually unknown to the consumers and the switching cost is extremely low as there are in fact many providers of vodka. In addition there are several other substitute products, such as whiskey, cognac and champagne, which must also be defined as possible competitors to vodka.

The Chinese consumers in general see vodka as the same regardless of brands and are unfamiliar with the product category. Chinese consumers are in addition acutely price sensitive and will often choose the cheaper brand. However, Heavy Water Vodka’s target segment does not need to know much about vodka or brands of spirits. The Heavy Water Vodka consumer is one who is influenced by western pop-culture and has sufficient funds, and persons who want to be seen as society’s elite. In this segment, price is of little consequence and brands are used to promote status.

6.9.3 The Threat of the Entry of New Competitors

The international vodka market is one of heavy competition. Few, but large actors dominate the market, making it more difficult for new brands to enter. One way in is by finding a niche that few other providers are targeting. The big brands operate

\textsuperscript{94} Kotler. Markedsføringsledelse. 198:2005
using exclusive distribution deals with bars, hotels and clubs. In some cases the brands own both the distributor and the bars. Access to these distribution networks is almost impossible for new entrants who wish to push their product out to the same consumer group as the owners of the distribution company. Heavy Water Vodka does however, offer something new and will most likely not take market shares from the other brands, other than the vodka brands in the premium segment.

New competitors on the vodka market may be tempted to use a pricing strategy to enter the Chinese market; on account of the Chinese consumers price sensitivity. However, a low price strategy is not necessarily the best way to go. High price is often equalled to high quality and certainly with exclusivity.

6.9.4 The Intensity of Competitive Rivalry
Our primary research data suggests that the Shanghai vodka market has few, but very strong players. There are only a few major players in the global market, such as Van Gogh Company, Pernod Ricard, Bacardi-Martini, Maxxium, MHD and LVMH. There are of course other smaller brands, but it is these big actors in the vodka market that are most likely to launch competing brands to Heavy Water Vodka.

The industry is growing rapidly, particularly in the Chinese market, and it is becoming more and more important for manufacturers to fill every niche in the market. This can over time prove to be devastating for Heavy Water Vodka if they have not managed to secure their position as a leading brand in the exclusive segment.

The big distributors however often have a very standardized portfolio which they modify at a fairly slow pace. This can prove to be an advantage for the small/medium sized distributors, who can provide new and exciting products that the large distributors neglect.

Mr. Leung feels that differentiation is the key to success in the exclusive vodka market. There are many vodka brands, most of which are inseparable by the consumer, and success is determined by the perceived additional value. The
industry is likely to be copied on design, but flavor and perceived value will stay with the original brand.

6.9.5 The Bargaining Power of Customers

Vodka is often used as a mixer in cocktails, which has been stated as the main reason why consumers don’t care about the brand. To the average consumer, most vodkas taste the same, particularly when mixed with orange juice, ginger ale or lime. This has created a gap in the market, as vodka manufacturers are unwilling to produce something the market does not want. Heavy Water Vodka is offering exclusive vodka with a unique taste, allowing it to be drunk without mixers. For most consumers however, the switching cost is very low. As mentioned before, the average Chinese consumer is very price sensitive. Heavy Water Internationals target segment consumers are however used to purchasing tables at the best clubs for thousands of RMB, even USD. A Heavy Water Vodka bottle placed on one of these tables will hopefully provide the customers with the additional value they are seeking.

Clubs, bars and restaurants can also be considered to be customers, even though they are not the end-consumers. According to Mr. Strandås, a lot of the popular and high-end clubs operate with a cash-upfront policy. They can do this because their endorsement of vodka brands is worth a lot to manufacturers and distributors in the form of increased revenue and prestige. By accepting this policy as a means to enter the shanghai market, Heavy Water International risks setting a precedence.

Distributors can also be regarded as customers. They are in fact the ones with the real bargaining power, as long as Heavy Water International needs them to distribute Heavy Water Vodka to the Chinese market. When a small Vodka producer like Heavy Water International looks for a distribution partner, relative bargaining power will be subject to the size of the potential distributor. Choosing a small to mid-sized distributor will contribute to a power-balance that ultimately will make cooperation more efficient.
Keeping all marketing related activities within a representative office situated in for example Shanghai, would also help in retaining some of Heavy Water Internationals bargaining power.

6.9.6 The Bargaining Power of Suppliers
The Vodka itself is made by J.J. Lidköping in Sweden, and the bottle is produced by Saver in France. This aspect is however not very relevant when it comes to answering our research aim. We will therefore refrain from commenting further on the bargaining power of Heavy Water Internationals suppliers.

6.10 Market Analysis
Here we will take a look at Heavy Water Internationals potential competitors and consumers within the Shanghai market. The market analysis is mainly based on our primary data findings and complimented with some secondary findings. We will first define Heavy Water Internationals competitors and then move on to which the potential consumer in Shanghai is.

6.11 Competitor Analysis
In this chapter we will give a detailed view of those competitors that we think are the main competitors to Heavy Water Vodka. This will be based on the primary data findings and on secondary data. Since Heavy Water Vodka is placed in-between the super and premium categories as shown in the figure below, we choose to describe brands from both categories. The figure shows how Heavy Water International would like to position the Heavy Water Vodka brand in relation to its major competitors. The model is derived from a Heavy Water Vodka presentation made by Heavy Water International.
The brand names in the figure above are just some of the many competitors Heavy Water International will encounter in the Shanghai market. We chose to mention these because we felt these were some of the most direct competitors. Other competitors can be found in the report provided by Heavy Water International.

Heavy Water International borrows a fashion term when they place Heavy Water Vodka in the “couture” category. They feel this is a classification that fits nicely between the “high” and “super” vodka categories.

6.11.1 Grey Goose – Bacardi
Grey Goose Vodka is distilled in Cognac, France from French wheat, imported to the United States by the Sidney Frank Importing Company in New Rochelle, New York. In 1997, it quickly gained a reputation for quality and has won several prestigious awards in distilled spirits competitions. In 2004, Sidney Frank sold the manufacturing rights to Bacardi for $2.2 billion.

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95 Heavy Water Vodka (sales and marketing ppt).
Advertising: According to Mr. Potez CEO of marketing at Jade Set, Grey Goose main focus when it comes to advertising is on events placed in key locations. Also they focus on doing commercials in magazines and through television commercials. They are currently looking for a high profiled couple where the male person is Chinese and the lady is of Chinese origin.

Grey Goose belongs to the Super Premium brand Category.

Pricing: Retail price 360 RMB.

6.11.2 Belvedere – MHD
Belvedere is a vodka brand from Poland. Belvedere is distilled solely from a single type of grain, the Dańkowskie Zlote rye.

Originally distilled in the Warsaw's suburb of Żyrardów, it is now license-made in several other distilleries. The makers claim their methods and practices of manufacturing the vodka trace back over 600 years. Belvedere is exported worldwide.

Belvedere belongs to the Super Premium brand group.

Advertising: Belvedere is advertised as being distilled longer than most other vodkas.

Pricing: Retail price 268 RMB.

6.11.3 Van Gogh – Van Gogh Company
Van Gogh Vodka is of Dutch origin and is owned and imported by Luctor International, L.L.C., and is sold in the United States, Europe, the Far East, Australia, New Zealand, Caribbean, Canada, South Africa and Central America.
Van Gogh produces 19 flavors, more than any other premium brand worldwide. Each small batch is made by using a unique, flavor-infusing distillation process.

Van Gogh belongs to the Super Premium brand group.

Pricing: Retail price 233 RMB.

6.11.4 Absolut – Maxxium
Absolut Vodka is a Swedish brand of vodka, produced near Åhus, Scania, in southern Sweden. In March 2008 the Swedish government, owner of Absolut through its V&S Group, sold Absolut to the French firm Pernod Ricard.

Absolut Vodka belongs to the Premium brand group.

Advertising: Much of Absolut's fame is due to its long-running advertising campaign, created by advertising agency TBWA, based on the distinctive bottle shape.

The ads frequently feature an Absolut bottle-shaped object in the center and a title "ABSOLUT ____." at the bottom.

Pricing: Retail price 98 RMB.

6.11.5 Wyborowa – Pernod Ricard
Wyborowa is a popular brand of vodka originating in Poland. Its production started in 1823 in Poznan distillery owned by Jewish businessman Hartwig Kantorowicz and later was bought by the French alcohol producer Pernod Ricard.

Wyborowa belongs to the Premium brand group.

Pricing: Retail price 88 RMB.
6.12 Competitor Analysis Summary
Of the competitors we have discussed, Grey Goose, Belvedere and Van Gogh Vodka belong to the super category, as defined by Heavy Water International. Absolut Vodka falls in under the high category and Wyborowa belong to the premium category.

Retail prices in China are as follows:

Grey goose: 360 Rmb
Belvedere: 268 Rmb
Van Gogh: 233 Rmb
Absolut: 98 Rmb
Wyborowa: 88 Rmb

6.13 Consumer Analysis
In this chapter we will identify Heavy Water Vodkas prospects and segmented market. This we will do through examining the customer’s benefits and profile.

6.13.1 Customer Benefits
Customer benefits can be divided into two (2) categories, functional benefits and psychological benefits.

Functional benefits:

Functional benefits include intoxication and a pure, good vodka taste.

Psychological benefits:

Since Heavy Water Vodka is a luxury brand it is very important for them to promote their products good psychological benefits in a clear and easy way for the consumer to pick up on. This is done through their unique and fashionable design (Mr. Harper Interview 2008) and Heavy Water Vodkas unique heritage. Mr. Leung at Wine passion (interview 2008) stressed the importance of history for
Chinese consumers regarding brands entering the Chinese market, which could be an advantage for Heavy Water International. Heavy Water Vodka could emphasize their story about the heroes from Telemark, Norway to show off the heritage and thus capturing the interest of the Chinese consumer. Also since Heavy Water Vodka is a luxury brand the consumer can display the product and use it as a “show of effect” and communicate their social standing to the surrounding crowd. According to Rolls Asian hierarchy of needs this “show off effect” is very important for the Chinese consumers, but not so important for the foreign crowd this is because of the cultural differences and therefore there are different needs in the different levels of the hierarchy of needs. This has also been supported by the manager of M2 Mr. Wang (interview 2008) that said “Chinese consumers are generally eager to show off their wealth by having expensive bottles and fireworks at their tables.”

6.13.2 Customer Profile
Here we will give a general overview of the Chinese and foreign customers in Shanghai that would benefit from the use of Heavy Water Vodka.

6.13.2.1 Chinese
According to Schutte and Ciarlante\textsuperscript{96} the Chinese consumer is more prone to buy luxury products because the Chinese aspire to reach another level of fulfillment compared to the foreigners. This fulfillment is subjected to the social standing and their social standing is often shown through luxury goods. These Chinese consumers that aspire to reach a higher social standing is the once that would benefit from the use of Heavy Water Vodka, as the product itself says something about the person using it.

The typical Chinese consumers are still a bit skeptical to the vodka-based drinks. Vodka does not give off the same strong taste when mixed, that for example whisky does when mixed. This gives a false feeling that one has not been drinking a strong alcohol based drink. Mr. Wang (interview 2008).

\textsuperscript{96} Schutte and Ciarlante. Consumer Behavior in Asia. 93:1998
A more popular drink for the Chinese consumer is the notorious Green tea and whisky mixture; another popular alcohol based product is Champagne. (Mr. Wang, Mr. Harper, Mr. Leung and Mr. Diao Interview 2008)

As the Chinese middle class is growing Mr. Harper and Mr. Wang (interview 2008) feels that the younger Chinese generation (25-35) are adapting to western drinking trends faster than the older generation.

“Today the Chinese consumers are more educated in what to drink and they adapt new drinking habits more easily” Mr. Wang (interview 2008)

### 6.13.2.2 Foreigners

According to Schutte and Ciarlante the western hierarchy of needs is slightly different than the Asian hierarchy of needs where the focus is not on social standing, but rather on self-actualization. What this sums up to is that the foreigner’s focus is not always on obtaining luxury products to show off their social standing, but rather to fulfill their own needs and to achieve self-actualization. But it is important to state that the foreigners often can afford more expensive things as they tend to have higher spending budgets in China compared with a Chinese and will use this on luxury products if they see the need for the product.

“Western consumers will do what they have learned back home” Mr. Potez (interview 2008).

When it comes to the foreigners habits they usually drink beer in the bar type establishments and when they are in lounges or clubs they prefer drinks that are vodka based. They can also often be observed with champagne bottles and vodka bottles on their tables. The vodka based drinks are often mixed with different types of soft drinks such as Redbull, Orange juice and Cranberry juice. (Mr. Wang, Mr. Diao and Mr. Harper interview 2008).

### 6.14 Segmentation, Targeting and Positioning

Market segmentation is the act of identifying groups of consumers whose purchasing behavior differs from others in important ways. Our primary and secondary data mainly consist of behavioral aspects of potential Heavy Water

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Vodka consumers. Our segmentation criteria are income, nationality, age, lifestyle, usage frequency and quality concern. We have based ourselves on Kotlers’ book “Markedsføringsledelse”\textsuperscript{98}

**Income:**

Although income is not always the best indicator as to who will buy what product first, we find it necessary to include it, as luxury products like Heavy Water Vodka are not commonly accessible to the lions’ share of the population in the Chinese market.

**Nationality:**

We have divided nationalities into Chinese and non-Chinese. Segmenting by nationalities can help when tailoring the marketing message.

**Age:**

Consumer wishes and opportunity for consumption change with age. However it is important to realize that though someone might be considered to be in the later stages of life, they may still be young at mind, and subsequently have purchasing habits consistent with those of a younger age.

**Lifestyle:**

Lifestyle can be an indicator as to what kind of purchasing pattern we might expect from the various segments. It says something about the opportunities a given consumer group has to purchase the product in question.

**Usage frequency:**

How many resources will a given consumer segment spend on a given product category. For example, how often will expats in Shanghai buy vodka when they frequent bars, clubs and restaurants?

**Quality concern:**

\textsuperscript{98} Kotler. *Markedsføringsledelse*. 232-240:2005
By mapping the quality concern a customer has when it comes to a certain product category, we may get an impression of how much they want to spend to ensure that they get a product that lives up to their standard.

6.14.1 Segmentation

Here we aim to present the segments we find appropriate to target in the Shanghai market. A product like Heavy Water Vodka is most likely only available to people who make substantially more than average, as an average wage in Shanghai is about 1200 Yuan. People who earn 3750 a month+ are considered in the middle class. When describing income in relative terms like: high/very high, we compare them to what a middle class employee might earn. Only around 13.5% of Chinas population can be considered to be in the middle class, but this figure is expected to rise dramatically the coming years.

6.14.1.1 Procedure for Market Segmentation

We have opted to use the need based segmentation method described in Kotlers Markedsføringsledelse. More specifically we will use George Bests’ 7 step procedure.

By researching what the consumers find most important when buying a certain type of product, we may divide them into segments with equal preferences. A consumer is likely to base his or hers choice of product according to:

- Brand dominant hierarchy (by first choosing brand, then model, then edition ex.)
- National dominant hierarchy (by first choosing COO of the brand, then brand.)
- Price dominant hierarchy
- Type dominant hierarchy (ex, by choosing taste of vodka)
- Quality dominant hierarchy

6.14.1.2 Identified segments

Based on our primary and secondary research data and the Ernst & Young rapport (The luxury lap), we find it practical to divide the potential Shanghai customers...
into 3 main clusters. By using Roberts Bests “Need based segmentation” we will then be able to evaluate each segments attractiveness and profitability.\textsuperscript{101}

6.14.1.3 Expats working in Shanghai

Western expats working in Shanghai have high-salaries and spend a lot of their free time in high-end clubs, bars, restaurants and pubs. Expats are generally interested in buying well-known brands when purchasing vodka. They can be considered to be quality conscious, and moderately price sensitive.

Benefits for choosing Heavy Water Vodka:

- Show off effect due to unique design. Has an award winning package and design
- Scandinavian quality; suitable to drink in its pure form
- Celebrity endorsed product, gives an aura of exclusivity

6.14.1.4 Wealthy Chinese

According to Ernst & Young 2005\textsuperscript{a}\textsuperscript{102}, the wealthy Chinese highly value personalized services and are often seen at the most popular and fashionable outlets. They buy the products they find desirable, regardless of price.

According to Mr. Potez, the wealthy Chinese prefer to have privacy and keep to themselves rather than show off when they go clubbing. They can commonly be found in VIP sections of high-end clubs.

They are regarded as opinion leaders by Chinese white collar employees.

Benefits for choosing Heavy Water Vodka:

- Scandinavian quality; suitable to drink in its pure form
- Shows that you can afford a couture brand
- Shows that you have knowledge of western brands

6.14.1.5 Chinese white collar employees

We define this segment as Chinese individuals typically employed by foreign companies. They often save the money they make during the week, and spend it in high-end clubs in the weekends. The main motivation for this group to buy luxury

\textsuperscript{101} Kotler. \textit{Markedsføringledelse} 230:2005
\textsuperscript{102} Ernst & Young 2005\textsuperscript{a}
goods is to show off their success. They make enough money to buy luxury products like Heavy Water Vodka.

Benefits for choosing Heavy Water Vodka:
- Show off effect due to unique design. Has an award winning package and design
- Celebrity endorsed product, gives an aura of exclusivity
- Shows that you have money to spend on expensive foreign brands

6.14.1.6 Segmentation of Consumer

The table below presents the three segments we have identified:

<table>
<thead>
<tr>
<th></th>
<th>Expats Working in Shanghai</th>
<th>Wealthy Chinese</th>
<th>Chinese White Collar Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>Very High</td>
<td>Very high</td>
<td>High</td>
</tr>
<tr>
<td>Nationality</td>
<td>Non-Chinese</td>
<td>Chinese</td>
<td>Chinese</td>
</tr>
<tr>
<td>Age</td>
<td>25-60</td>
<td>20-70</td>
<td>20-40</td>
</tr>
<tr>
<td>Social Class</td>
<td>Middle Class, Upper Class</td>
<td>Upper Class</td>
<td>Middle Class</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>High-end Clubs, Restaurants, Bars</td>
<td>High-end Clubs, Bars</td>
<td>High-end Clubs, Bars</td>
</tr>
<tr>
<td>Personality</td>
<td>Extrovert, Ambitious</td>
<td>Secluded</td>
<td>Extrovert, Ambitious</td>
</tr>
<tr>
<td>Usage</td>
<td>High</td>
<td>Medium</td>
<td>Medium / High</td>
</tr>
<tr>
<td>Quality concern</td>
<td>Important</td>
<td>Important</td>
<td>Less important</td>
</tr>
</tbody>
</table>

Table 3 Segmentation of Consumers

6.14.1.7 Segmentation Attractiveness and Profitability

In order to assess the different segments, attractiveness and profitability, we have relied on Roger Best’s theories103 we have chosen to present these data in the form of a spreadsheet.

<table>
<thead>
<tr>
<th></th>
<th>Expats Working in Shanghai</th>
<th>Wealthy Chinese</th>
<th>Chinese White Collar Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Growth</td>
<td>Rapidly increasing</td>
<td>Moderate increasing</td>
<td>Rapidly increasing</td>
</tr>
<tr>
<td>Market Accessibility</td>
<td>Bars, Restaurant, Clubs and high-end outlets</td>
<td>High-end Restaurants, Clubs</td>
<td>Bars, Restaurants, Clubs and high-end outlets</td>
</tr>
<tr>
<td>Segment Attractiveness</td>
<td>Very High</td>
<td>High</td>
<td>Very High</td>
</tr>
<tr>
<td>Profitability</td>
<td>High consumption</td>
<td>Low consumption</td>
<td>Medium consumption</td>
</tr>
</tbody>
</table>

Table 4 Attractiveness and Profitability

6.14.2 Targeting

We selected selective targeting for our targeting strategy. This is because we identified three segments in the segmentation chapter where there is a good possibility for high profits; this strategy has the benefit to diversify Heavy Water Internationals risks.

103 Kotler, Markedsføringsledelse. 231:2005
“Differentiated marketing normally gives higher sales than undifferentiated marketing but it also costs more.”\textsuperscript{104}

This might press Heavy Water International to use the same marketing strategy for all three (3) segments also called Single segment concentration.

6.14.2.1 Locally respected wealthy Chinese

The general understanding by theorists within the marketing community is that the Chinese consumer looks to the foreigners when adapting new trends; the Foreigner thus becomes the trendsetter/opinion leader.

According to Mr. Potez (interview 2008) this is wrong, the Chinese will look at other locally respected Chinese not to the Foreigners living in China. One of the reasons for this is because “the Chinese people want to see themselves and feel that they are the focus” Mr. Potez (interview 2008). By this statement Mr. Potez meant that it was not so important to have products endorsed by western celebrities, but rather by Chinese high standing people that are more known to the Asian world than the western world.

These Chinese high standing people can be construed as the trendsetters and urban opinion leaders that might be good to be associated with like musicians, artists, gallery owners, bankers and athletes.

One of the reasons that Mr. Potez ended his work at Solid XS was because he felt that they had to little focus on the Chinese and too much focus on the expats living in China. This was a problem for him because he meant that the wealthy Chinese stood for a large and important segment for Solid XS. Also he meant that moving Solid XS around the world from UK to China and only focusing on the expats living in China was a huge strategically mistake.

Because of the above-mentioned facts Heavy Water International should first focus their targeting at the wealthy Chinese, as these are the trendsetters/opinion leaders.

Secondly Heavy Water International should focus their targeting on expats working in Shanghai, according to Mr. Pedersen (Interview 2008) this is an

\textsuperscript{104} Kotler, Markedsføringsledelse. 244:2005
important target segment for Heavy Water Vodka and there might be some brand recognition from other markets, especially from the United States. This segment may also function as trendsetters/opinion formers for the third segment, the Chinese white collar employees.

“The Chinese white collar employees like to have a place or product proven to be cool before they will go or buy a product. This might be where the expats shows the way.”

6.14.3 Positioning
Heavy Water Vodka wants to position themselves within a new and exciting category, which fits in between the super premium and premium vodka categories, which they call the “couture” category.

6.14.3.1 Points-of-difference
“Heavy Water Vodka is truly unique vodka, which stands out and will differ from the competitors in the vodka market.” Mr. Pedersen (interview 2008).

Heavy Water Vodkas main points-of-difference are the unique and award winning design of the bottle. Awards the Heavy Water Vodka bottle has won: Beverage Testing Institute (San Francisco) and Monaco in 2007, Gold medal and winner of all Vodkas, Quality of liquid: award winning: Gold medal in Beverage Testing Institute in 2007. Premium pricing is 25-30% above the premium vodkas (ex. Smirnoff and Absolut), and no less than 5% below the super premium brands (ex. Grey Goose).

“Heavy Water Vodka is flawless purity”.

Another important point-of-difference for Heavy Water Vodka is the attributes it reflects such as pure, soft and clean. These attributes come from the deep artesian well where the water used in Heavy Water Vodka is found. This is known as one of the purest water sources in Sweden and the Swedish royal family still baptizes their children in the same water.

105 Quotation from Mr. Potez Interview 2008
106 F. Paul Pacult’s Spirit Journal (March 2006)
Yet another point-of-difference is that the Heavy Water Vodka is housed in a glass-bottle which is produced by Saver in France. They have done this by choice to differentiate the vodka bottle from the competition and in that way stand out from the crowd with higher bottle quality.

Pricing can also be seen as a point-of-difference as they aim to be 5% cheaper than Grey Goose but 25%-30% more expensive than Smirnoff and Absolut.

6.14.3.2 Points-of-parity
The most important points-of-parity is the similarities with the premium and super premium categories as Heavy Water Vodka targets the consumers from both of these categories.

Another point-of-parity is that it is difficult to taste the difference between the different vodkas both when mixed and not mixed.

Most vodka brands have around 40% alcohol and have the same clear consistence, which makes it hard for the consumer to tell the difference between the different vodka products.

To sum up we would position Heavy Water Vodka as a truly unique designed vodka bottle containing vodka with flawless purity, but ultimately with similar taste to other vodka brands in the premium and super premium category.

6.15 Standardization or Adaptation of Marketing Mix
Before we will go into the different promotion tools Heavy Water International could use in the marketing mix, we will discuss if Heavy Water International should standardize their strategy or adapt their strategy to the Shanghai market.

“Using a global image and adapting it to the local market.” Mr. Potez (interview 2008).

Standardization of marketing means that the overall marketing is the same, but there will always be some adaptation to the local market. Even McDonalds, which has a standardized marketing approach in the international market, has some level
of adaptation to the local market, regarding the product, the marketing message and price.\textsuperscript{107}

Heavy Water International should use an overall standardization of their marketing, but with some local adaptations to the local Shanghai market. This is also supported by Solberg (2006) according to his theory about standardization or adaptation of the marketing mix.\textsuperscript{108}

\section*{6.16 Marketing Mix}
We have found out that Heavy Water International should standardize their overall marketing, but with some local adaptations to the Shanghai market. We will here examine the marketing mix and the adaptations Heavy Water International should do regarding the establishment in Shanghai. This will give a better platform on how Heavy Water International should use the four P’s actively in the Shanghai market.

\subsection*{6.16.1 Price}
As mentioned in previous chapters Heavy Water International will set its price 5\% below Grey Goose vodka and 25\%-30\% above Smirnoff and Absolut vodka. Pricing of Heavy Water Vodka will most likely be set by the sales location, but should be kept at a significantly higher level than other more available vodkas.

There has to be a mutual understanding of the pricing at the different sales points such as in nightclubs, hotel bars and outlets.

Mr. Potez stated that high prices symbolize high quality for the Chinese and thus we feel that the pricing strategy Heavy Water International is using is good when targeting the chosen targets.

It is easier to lower the price than to increase it, therefore it is better for Heavy Water International to start at a high price and see if the consumers accept it. If the consumer does not accept the price Heavy Water International has set at its initial

\begin{itemize}
  \item \textsuperscript{107} Solberg, Carl Arthur. \textit{International markedsføring}, 2006:259.
  \item \textsuperscript{108} Solberg, Carl Arthur. \textit{International markedsføring}, 2006:255.
\end{itemize}
stage it will be easier to reduce the price to a more acceptable price level. An example of this is Solid XS experience.

Solid XS aimed for the super premium segment and was priced around 1000 RMB when it first entered the Chinese market and has since dropped to around 700 to 800 RMB. One of the reasons for this was their inconsistency in their marketing, with too many events over short periods of time and poor localization of the events. Mr. Potez (interview 2008).

6.16.2 Place
The crowd Heavy Water International intends to aim for is the “designer audience” who are “bold, risk-taking and experimental, the sophisticated, who seeks out perfection in everyday life and who never waits in line”. The places we will present in this chapter are the places that will have an appeal for this kind of crowd. This information has been taken from our primary data findings.

We have divided where Heavy Water International should focus their placing into two (2) categories, primary places and secondary places.

6.16.2.1 Primary places
At the present time, the largest market is on-trade, in up-scale restaurants, bars, and exclusive nightclubs. Shanghai’s Xintianti, a complex of carefully assembled up-market bars and restaurants frequented by locals and foreigners, is one such venue. (Mr. Strandås and Mr. Harper Interview 2008).

Heavy Water International should focus on establishing relations and distribution to the clubs and restaurants located on The Bund such as Bar Rouge, Lounge 18, M on The Bund, Glamour Bar, New Heights and Attica. (Mr. Harper, Mr. Strandås, Mr. Potez and Mr. Buze Interview 2008).

6.16.2.2 Secondary places
Another place that Heavy Water Vodka could be sold is in five (5) star hotels such as Ritz Carlton, Hilton, Marriott and Shangri-La. (Mr. Strandås, Mr. Buze and Mr. Harper Interview 2008).

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109 Heavy Water Vodka (sales and marketing ppt).
After these places have been targeted, Heavy Water International could make a list of other high-end clubs outside Xintiandi and The Bund, clubs such as M2, G+, Park97 and Mao. (Mr. Harper Interview 2008).

Also other places that could be interesting for Heavy Water International is in high-end K-TVs (popular karaoke), exclusive gentlemen clubs, golf clubs and exclusive yacht clubs. (Mr. Strandås Interview 2008).

6.16.3 Promotion
Heavy Water International has never used any money related to any big advertising campaigns other then on direct consumer marketing. As Mr. Pedersen says, “we are always building step by step and will not use money on big advertising campaigns. Focus will be on direct consumer marketing.”

It has already been established that Heavy Water International will not use any of the main stream marketing channels such as television commercials, magazine ads and large posters. Thus leaving us with the direct consumer marketing, which entails using opinion leaders/trendsetters and events to market the Heavy Water International brand. According to Mr. Leung it is also important to create a story and to communicate the country of origin of the product as this gives it something more than just a fancy bottle.

6.16.3.1 Opinion leaders and endorsements
Through our primary data findings we found the importance of getting locally respected Chinese to endorse the product Heavy Water Vodka. This is because “The Chinese people want to see themselves and feel that they are the focus.” These opinion leaders can be associated with: Celebrities, musicians, artists, gallery owners, bankers and athletes. By using this approach Heavy Water International can create attention among their targeted segments. Another effect that this kind of endorsements creates is the word of mouth marketing. The word of mouth marketing is a very important part of Heavy Water Internationals marketing as it does not cost anything and creates a lot of attention around the product. According to Mr. Potez (interview 2008) it might be more difficult to

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110 Quotation from Mr. Potez interview 2008
find the right celebrities in Shanghai as most of them reside in other cities such as Beijing and Hong Kong. This makes it harder to create the “right” VIP lists consisting of Chinese celebrities for events in Shanghai. What Heavy Water International has done in other markets is that they have had strategic relationships with key individuals in the music, film and art communities. Endorsers in the United States are celebrities such as Leonardo DiCaprio, Christina Aguilera, Vin Diesel, Lenny Kravitz, Alan Cummings and The Killers.111

6.16.3.2 Events
Events is a great way to create attention although it is getting harder and harder to create an event that stands out from the rest as there are so many events being hosted throughout Shanghai every week. It is especially hard for a brand operating in the vodka market, as they need to launch events and create the right amount of exposure for the vodka brand. When Heavy Water International is hosting an event they should also have two (2) separate invites. There should be one invite for wealthy Chinese and one for the international crowd, because there is a cultural difference on when they go out. The wealthy Chinese might go out earlier in the evening and the international crowd will go out later. (Mr. Potez interview 2008).

According to our primary data findings it is important to locate Heavy Water International events at key locations as mentioned under the chapter marketing mix, Place.

Events can also be a way to get free PR through channels such as magazines, television and through web based commercials. Examples of such channels in Shanghai are the French fashion photographer, Cedric M, who has his own website showing the Shanghai nightlife. He shows the nightlife of Shanghai through posting videos and pictures from carefully selected high-end bars and nightclubs. These videos are shown as commercials on plasma screens in Shanghais taxis.

Smart Shanghai is a database on the World Wide Web with an overview of everything that is happening in Shanghai; here you can find such things as good

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111 Heavy Water International, sales and marketing ppt.
restaurants, nightclubs and event promotions. They will also post pictures and videos of events the day after. These two (2) channels are ways that Heavy Water International could promote their brand without using any advertising budgets.

When Heavy Water International is hosting an event Mr. Leung suggested that a gift bag would be a good way to reach out to the Chinese people. He also said that having events where the bottle is in the centre of the attention, and make it “spectacular” is something that would draw the Chinese to this. By this he meant fireworks, ice-cubes and gift-bags.

6.16.3.3 Country of origin and Scandinavian heritage

Country of origin is an important promotion tool that should be used in the marketing process in the Shanghai market. It is important to establish the brand, and as the consumers become adapted to Heavy Water Internationals product, it is important to start portraying the products country of origin, and Scandinavian heritage.

Mr. Leung (interview 2008) explained the importance of telling the brands history and heritage when entering the Chinese market to create a whole story around the product.

Heavy Water International should emphasize their story about the “heroes from Telemark, Norway”. The name was inspired from the Norwegian “heavy water” heroes known as the heroes from Telemark that destroyed the Nazis “heavy water” nuclear plant, and by that may have changed the outcome of World War II.\(^\text{112}\)

First Christian King of Sweden (Olov) was baptized from the same water-source around 1000 ac. The water used to produce the vodka comes from the purest water-source in Sweden and it is an abundant water supply sourced from an underground lake, dating back to the Ice Age. The Swedish royal family still baptizes their children here.

It is also important to mention that it might be hard for the Chinese to relate to the products heritage and origin, but the segments that Heavy Water International is targeting are often more enlightened, educated and sophisticated. Also Mr. Leung

\(^{112}\) from the introduction in the thesis page 6
mentioned that the Chinese people are often very inspired by stories of heroism, which Heavy Water Vodkas background story is full of.

6.16.4 Product
By applying the extended product model we may more easily identify Heavy Water Vodkas true value to a potential customer.113

![Extended Product Model](image)

**Figure 10** Extended Product Model

The table below gives a description as to what product characteristics belong in each category.

<table>
<thead>
<tr>
<th>Core Benefits</th>
<th>Quality Vodka, Pure Taste, Alcohol Intoxication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic Product</strong></td>
<td>Bottle of Vodka</td>
</tr>
<tr>
<td><strong>Expected Product</strong> (Minimum expectations)</td>
<td>Show Off Effect</td>
</tr>
<tr>
<td></td>
<td>Fashionable, Designed Bottle</td>
</tr>
<tr>
<td></td>
<td>High Quality</td>
</tr>
<tr>
<td></td>
<td>No artificial taste</td>
</tr>
<tr>
<td></td>
<td>Quality contents pureness and high percentage of alcohol</td>
</tr>
</tbody>
</table>

### Augmented Product
(Beyond expectations – as of today)

- Design
- Eye-catcher
- Fashionable, Brand Setting (The brand is very important)
- Pure Quality Vodka, Sensation of Euphoria
- The bottle can contribute into the slogan “something to talk about” (Heavy Waters’ slogan: “People are talking”)
- Exiting features

### Potential Product
(Innovative transformations, possible in the future)

- New Design
- Additional light under the bottle in order to attract more attention
- Additional Accessories:
  - Additional Flavours (Green Tea, Lemon, Raspberry, Vanilla, Coffee, Cranberry,)
  - Combination with other products (such as perfumes, clothing’s, mineral waters)

**Table 5 Extended Product Table**

According to Kotler\textsuperscript{114} the Heavy Water Vodka product could be defined as a “special product”. This implies that it has a unique character and/or a brand name that customers are willing to go beyond normal efforts to get a hold of. However, with product groups like this it is very important that the customer understands the brand value. They will only be aware of this if Heavy Water International is efficient enough in communicating it.

\textsuperscript{114}Kotler, *Markedsføringsledelse*. 346:2005
High-end vodka labels are considered show-off products. Developing the right accessories could enhance this factor. One idea is to make the fancy lighting apparatus that Heavy Water Vodka representatives use in marketing readily available for consumers at places like clubs, where the show-off factor is the highest. Another idea could be to make the rod in the middle of the Heavy Water Vodka bottle more useful (beyond pure design). Maybe the rod can be manufactured in a way that gives it a cooling quality, keeping the vodka cold for extended periods of time.

The Chinese consumer highly values the ability to be able to choose Vodka flavors. As long as Heavy Water Vodka only comes in one flavor, the consumers will be denied this choice. Seeing as Heavy Water Vodka is pitching into competition with the high-end multinational brands that usually have more flavors to choose from, they will be at a disadvantage in this field.

Both Mr. Harper and Mr. Andersen raised the issue of brand pirating. The normal that this might happen is that bottles that are missing get refilled with low-grade and potentially dangerous spirits or that both bottle and contents are copied. The potential for this can be reduced by designing more secure bottle caps and implementing a bottle retrieval system.

Luxury brands do usually not benefit from being altered to suit local markets as this would compromise brand recognition and exclusivity. There is however some government requirements that needs to be adhered to. The content declaration needs to be written in Chinese. The cheapest option would be to use stickers, but this would not be compatible with luxurious image Heavy Water Vodka is trying to imprint. A better option would be to print the declaration in Chinese directly on the bottle.

The brand name is original and easy to remember. Even though the surveys gave a mixed result in how the interviewees actually responded to the name, the brand has established good roots in the Norwegian and US market.

In the later stages of the product life cycle they should consider to use more abstract and emotional imagery in the brand building process to consolidate their position as a product leader in the premium segment. The marketing strategy of
Swedish brand Absolute is a good example of this. The simple contour of the bottle is now everything the brand needs in its marketing, after years of educating the market.

6.17 Double Weighted SWOT Analysis

Our intention with this SWOT analysis is to assess Heavy Water Internationals strengths, weaknesses, opportunities and threats when establishing themselves in the Chinese market. Identifying the most important underlying factors that will have an effect on the venture will help when developing a market penetration strategy.

We will use a double-weighted SWOT analysis.

The SWOT analysis is based on our findings in our primary and secondary data research.

6.17.1 Strengths:

- **Award winning bottle design and package (A)**
  
  - The bottle design of the Heavy Water Vodka brand is unique because of its low height and masculine appearance. It has a hi-tech feel because of the rod that is placed inside, making it look a mini nuclear reactor.

- **History behind the brand name (B)**
  
  - The brand name and bottle appearance is inspired by The Heroes of Telemark. They were a group of Norwegian resistance fighters who sabotaged a German heavy water production facility in Rjukan, Telemark, effectively stopping the German nuclear research and development program during World War II. The Chinese consumer is generally very interested in background stories and history behind the brands that they buy.

- **Experience using celebrity factor to promote the brand (C)**
  
  - Heavy Water International has previously had a lot of success in associating the Heavy Water Vodka brand with high-profile celebrities and their drinking habits. The bottle has been seen on the tables of famous people like Justin Timberlake, Timbaland and Paris Hilton. These celebrities are also known in China, but
the experience in this kind of marketing is an asset in itself and could be used in conjunction with Chinese celebrities.

- Experience in penetrating new markets with minimum expenditure (D)
  - Heavy Water Vodka has not spent a dime on conventional marketing (paid exposure in magazines and tv), but have instead opted to use a bottom to top approach, getting brand exposure with the help of celebrities and clever product placement at important events. Heavy Water International promotes Heavy Water Vodka with the help of brand ambassadors who they pay the party expenditures for. This is a very cheap form of marketing that may seem more sincere to the customer than traditional marketing.

6.17.2 Weakness:
- No brand recognition (E)
  - Being a small brand, Heavy Water Vodka cannot be expected to be recognized at all on the Chinese market.
- Limited resources (F)
  - Relative to the big multinational vodka producers, Heavy Water International has extremely limited resources, effectively reducing the opportunities they have to affect the market through advertising.
- Lack of product variety (flavours) (G)
  - Chinese enjoy having multiple flavour options when choosing which brand to buy. All the big multinational brands have variations in both product flavours and product design.
- No market knowledge (H)
  - Heavy Water International has no previous experience with the far-east markets.
- Bottle design unsuitable for quick rack (I)
  - The bottle shape makes it unsuitable for a bar quick rack. Even though Heavy Water Vodka is marketed as exclusive vodka in the
markets it is currently present in, and is not supposed to be used as “house vodka”, it is nevertheless a limitation.

**Figure 11** Strengths and Weaknesses Matrix

### 6.17.3 Opportunities:
- Vodka market growth (J)
  - The Chinese vodka market is growing rapidly. Estimated growth for 2007 is put at 37.3%, much thanks to Absolut, Smirnoff and Wyborowas efforts to educate the Chinese consumers. New actors on the market like Heavy Water International also stand to benefit from this. It is estimated in a rapport from Ernst & Young that 13.5% of Chinese consumer can afford a variety of luxury goods. This is equivalent 175 million people. Within 2010 it is expected that this number will rise to 250 million.
- Strengthening of Chinese currency (K)
  - A strengthening of Chinese currency will most likely result in increased sales for Heavy Water Vodka
- Chinese consumers are eager to try new brands (L)
Many of the multinational vodka brands have been around on the Chinese market for many years now, and Chinese consumers are interested in discovering and trying new products. Any new vodka brand on the Chinese market is likely to get some “free” PR.

Figure 12 Opportunity Matrix

6.17.4 Threats:

- Loss of control over marketing activities (M)
  - By making a deal with a local distributor, there is always a risk present that marketing activities may be compromised. Heavy Water Vodka may choose to only sell their product to certain outlets to maintain brand exclusivity, but if the distributor is not closely monitored, they may take advantage of the situation and sell to other than the intended clients. This may result in loss of exclusivity, subsequently undermining Heavy Water International efforts to position the brand.

- Brand pirating (N)
  - It is fairly normal for luxury goods to be pirated in China. Vodka is no exception. Although pirating can be made more difficult by
unique and high-quality bottles and by securing the bottle cap, this does not rule out that people will steal bottles and refill them. There needs to be some kind of bottle accounting system in order to minimize this. Damage potential for the Heavy Water Vodka brand is very high, if the product is pirated and substituted with low-grade and potentially lethal spirits.

- Taxation (O)
  - An increase in taxation on imported spirits will have a negative impact on Heavy Water Internationals profit.

- Chinese currency devaluation (P)
  - If the Chinese currency devalues, sales are likely to drop

- Chinese drinking habits (Q)
  - When it comes to spirits, whisky is the equivalent for Chinese, as Vodka is for westerners. It might therefore be necessary to educate Chinese consumers on how to drink high-end vodka. This work has already been undertaken by some of the multinational vodka manufacturers.
6.17.4 Summary
From what we have learned using the SWOT analysis we conclude that the biggest strengths lie in Heavy Waters Internationals experience in using the celebrity factor when promoting the brand and in Heavy Water Vodkas award winning bottle design and package.

The biggest weaknesses are Heavy Water Internationals lack of market knowledge, combined with their limited resources, and the fact that the Heavy Water Vodka brand is not recognized at all among Chinese consumers.

The opportunities we consider most important for Heavy Water Internationals when penetrating the Chinese market is the rapid market growth and the possibility of Chinese currency strengthening.

One of the threats for Heavy Water international when entering the Chinese market is if they lose control over marketing and sales. This might result in damaging Heavy Water Internationals brand positioning, thereby loosing exclusivity and grounds for charging premium prices. Another cause for concern is the possibility of brand pirating.

6.18 Strategic Problem Definition
“How can Heavy Water International, with no brand recognition and experience in the Chinese vodka market, establish Heavy Water Vodka and create brand awareness with their award winning bottle design and promotional experience, without losing control of marketing activities and trying to avoid brand pirating, by taking advantage of the growing vodka market and a possible strengthening of the Chinese currency?

6.19 Short Term Goals
We define short term goals as up to two (2) years.

- Establish a good distributor-connection in Shanghai. This should take one (1) to four (4) months.
• Establish a customer relationship with clubs, bars, and lounges in the following areas, The Bund, Xin Tian Di, and the five (5) star hotels in Shanghai. We expect this to take one (1) to two (2) years.

6.20 Long Term Goals
We define long term goals as two years and above.

• Create brand awareness. This can take two (2) to six (6) years.

• Strengthening the relationship with the distributor. This should be an ongoing goal.

• Expand to other tier one (1) cities such as, Beijing and Hong Kong.

6.21 Critical Success Factors (CSF)
• Heavy Water International should find a small and dynamic distributor, which can provide the brand the attention and stability during the first phase of Heavy Water Internationals entry into China

• Supervision of the distributor

• Maintain control over marketing activities

• Heavy Water International employee stationed locally in Shanghai

• Personal relations with the distributor and selected venues

• Create brand awareness

• Direct consumer marketing

• Building the brand name by using locally respected Chinese to endorse the brand
Conclusion and Recommendation
7. CONCLUSION AND RECOMMENDATION

The aim of this thesis was to develop a marketing strategy for Heavy Water Vodka in the Shanghai-market and to identify suitable distributors.

This chapter will give recommendations on the following areas of interest:

• Identifying the most suitable entry vehicles for Heavy Water International in Shanghai

• Possible suitable distributors in the Shanghai market

• Identify marketing opportunities in the Shanghai market

We suggest that Heavy Water International establish a representative office in Shanghai to take care of all marketing related activities. They will also need to team up with a Chinese distributor in order to be able to import and sell Heavy Water Vodka on the Chinese market.

We highly recommend that Heavy Water International have an expat stationed in Shanghai to oversee day to day activities.

We recommend that Heavy Water International partners up with a small to medium sized distributor. More specifically we recommend them to contact MMB and Taifu Spirits. MMB has a Norwegian account manager, and this company deals in various luxury goods. We recommend Taifu Spirits because of their professionalism and logistic expertise. Also, their Chinese staff is proficient in English.

It is a common belief that westerners are trendsetters and opinion leaders that the Chinese follow. Although there is some truth to this, our research suggests that this perception is over estimated. Chinese prefer to see themselves as opinion leaders.

“The Chinese people want to see themselves and feel that they are the focus” -Christopher Potez former marketing director of Solid XS
The Chinese market is more likely to adopt a product faster if it is seen with Asian celebrities than with western celebrities. Local Chinese celebrities should play an important role in Heavy Water Internationals marketing strategy.

We have identified 3 main consumer segments. These are Expats working in Shanghai, wealthy Chinese and Chinese white collar employees. We suggest using a differentiated marketing mix in trying to reach these segments.

7.1 Marketing Mix Recommendation

7.1.1 Product
In order to minimize brand pirating, Heavy Water International should consider further securing the bottle cap. We also believe that a bottle recovery system should be put in place in order to prevent bottles from being refilled with low-grade and potentially dangerous spirits.

The declaration of contents on the Heavy Water Vodka bottle has to be in Chinese. The cheap solution would be to add a sticker over the original declaration, but we feel that this might harm the bottle design.

Lighting effects like fireworks or fluorescent drinks are very popular to have on the table in the high-end clubs. When promoting the Heavy Water Vodka Brand, representatives make use of a fancy lighting apparatus that makes the bottle glow. We believe that this could be a big hit if provided to Chinese consumers.

The plastic rod inside the Heavy Water Vodka bottle may be altered in a way so that it provides a cooling function, keeping the vodka cold for longer. We believe that this would be perceived as an additional value to the consumer.

It might be a good idea to bundle the sale of a Heavy Water Vodka bottle with other products and services. There might for example be a scratch code on the bottle that gives the consumer access to music via internet or a “Heavy Water Vodka Club” membership.

Additional flavors would most probably be a welcome addition when marketing the Heavy Water Vodka brand to the Chinese market. Considering the incredible
success of Chivas Whisky, after someone got the idea to mix it with green tea, it might be a good idea to make a Heavy Water Vodka with a green tea flavor.

7.1.2 Place

Our research shows that the following places are particularly suited for Heavy Water Vodkas high-end profile:

- **The exclusive bars, clubs, hotels and restaurants in downtown Xintiandi (French concession) and The Bund:** Bar Rouge, Lounge 18, M on The Bund, Glamour Bar, Hilton Hotel, Ritz Carlton Hotel, JW Marriot Hotel.

- **Exclusive clubs (gentleman clubs, golf clubs and yacht clubs):** Shanghai Boat and Yaht Club, Shanghai Country Club, Shanghai West Golf Club, Shanghai Links Golf & Country Club

- **Exclusive wine & spirit boutiques:** Wine Passion Chain

7.1.3 Price

Heavy Water International have stated that they want to be in the same price class as Grey Goose (-5%), and approximately 25-30% above Absolut Vodka and Smirnoff Vodka.

There has to be a mutual understanding of the pricing at the different sales points such as in nightclubs, hotel bars and outlets.

Mr. Potez stated that high prices symbolize high quality for the Chinese. We therefore feel that the pricing strategy Heavy Water International is currently using in other areas is suitable for targeting the chosen segments.

7.1.4 Promotion

We recommend Heavy Water International to plan a brand launch event when entering the Shanghai market. We also recommend them to have one event party every month to keep a peak interest in the brand. By arranging event parties together with other famous luxury brands, Heavy Water Vodka may further strengthen their status as a luxury brand.
Invites for events should be set at different times for Chinese and expats, as Chinese prefer to go out earlier and go home earlier than their foreign counterparts. By inviting people at different times, a steady stream of visitors is ensured.

When targeting the expat segment, Heavy Water International should make use of the ties it has to western celebrities. However when targeting the Chinese segments, they should try to find respected local endorsers of the brand. These endorsers can be artists, bankers, athletes, or gallery owners.

In holiday seasons, a variety of products are sold in gift bags. It might be a good suggestion to implement this strategy at the shop outlets.

Heavy Water International should focus heavily on the history of the Heavy Water Vodka brand name when marketing the product to Chinese consumers. Chinese consumers are generally more interested in the background story and look more to the past than western people.
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9. APPENDIX

9.1 Appendix 1

9.1.1 Interview Summaries

Alex Harper, former Bar Manager of The Bund Brewery, Manager White Lotus Catering—interview conducted at Element Fresh, Portman.

Mr. Harper arrived in Shanghai August 23, 2007. Since he arrived he has held a position as bar manager at The Bund Brewery (Aug. – Feb.). After that, his time has been spent planning for the opening of his new high-end catering business, White Lotus Catering.

Mr Harper started off by giving us some information regarding his previous working place. The clientel consisted of a 50/50 blend of Expats and Chinese businesspeople. It was mid-priced establishment with prices on the level with clubs like Babyface, BonBon and Volar.

Mr. Harper was kind enough to provide us information regarding some of their distributors.

- ASC Fine Wines
- Taifu Spirits
- Ezee Beverages

ASC Fine Wines primarily focuses on distributing for the wine industry. Taifu Spirits deal exclusively in spirits, whereas Ezee Beverages distribute beer, wine, spirits and other beverages. Mr. Harper emphasised his good relationship with Taifu Sprits because of their professionalism and logistic expertise. He also mentioned the Chinese staffs’ fluency in English, making it easier to deal with them.

When asked how he would market a brand like Heavy Water Vodka in Shanghai, Mr. Harper told us that he would primarily focus on establishing relations and distribution to the clubs and restaurants located on The Bund such as Bar Rouge,
Lounge 18, M on The Bund, Glamour Bar, New Heights and Attica. He would then proceed to make a list of the hottest spots in Shanghai, and make an approach strategy, aiming for the most desired spots first. The clubs he mentioned as relevant in this regard where M2, G+, Sugar, Park97 and Mao. He also suggested some of the high-end hotels in Shanghai, like Meridian, Hyatt, Shangri-la and Ritz Carlton.

Mr. Harper raised the issue of brand protection. He told us of how many of the high-end spirit brands tend to be pirated. This could happen in a variety of ways, one of the more popular being to save the empty bottles, and refilling them with cheap, low-grade spirits. Another way being that the bottles are copied.

With regards to design of the Heavy Water Vodka bottle, Mr. Harper brought forth some interesting perceptions. Because of the bottles large circumference, it is not very suitable for a quick-rack. He also would have liked the bottle to be slimmer and higher, to give it a more majestic appearance. He did however like the design, and found it unique and fashionable. He also drew a parallel Henrik Gin bottle, which is a popular spirit.

According to Mr. Harper, Chinese drinking culture is quite different from the western drinking culture. The Chinese male drinks primarily beer, but Mr. Harper is convinced that as the Chinese middle class grows, spirits will become more popular. He found the Chinese female drinking culture a bit weird. In his opinion the Chinese female drinks very little, and mostly what the man they are with is drinking. It is important to mention that the younger generation most likely will adapt a different drinking culture, more related to the western lifestyle. He thought celebrity factor surrounding the Heavy Water Vodka brand would be a big seller among the younger Chinese generation.

Cem Buze, distributor for MMB. The interview took place at an Italian restaurant, Bella Napoli. 14.03.08.

Cem Buze is working for MMB, which is a small distributor and importer. MMB has different products in its portfolio these include fine wines, boutique wines, organic wine and truffle products. Their focus is on restaurants, which accounts
for about 90% of their sales but also delivers to hotels, which accounts for the last remaining 10% of their sales. In addition to this, MMB plans to expand their portfolio to include other products such as exclusive spirits and other similar products in the exclusive product category.

MMB has been in Shanghai for three (3) and a half-year. MMB is today trying to help other smaller businesses that want to enter the Chinese market. This presents the smaller businesses with a good opportunity to expand their business areas to China. Their niche market today is the exclusive wine they import mostly from Italy and France.

When it comes to Heavy Water’s bottle, Cem Buze likes the design and the brand. He feels that it is similar to Hugo Boss’ perfume that was quite popular a few years ago. The perfume looked like an army field flask from the American Civil War. Further on he said that the bottle looked “dangerous” and not “pure”, this because of the design of the bottle it self looks very masculine. He also said that the Chinese likes bottles that looks exclusive and promotes a certain kind of image for those who enjoy a drink of Heavy Water Vodka. Also he felt that Heavy Water Vodka would fit nicely into bars/clubs such as Bar Rouge, Attica, Muse 2 (M2) and other high-end locations. He mentioned that Heavy Water Vodka could be sold through retailers that sold more exclusive types of alcohol products or through western stores such as City shop, which offers a wide range of western products that cannot be found in such food stores as Wall Mart, Carrefour and other types of super stores. Another place he imagined that Heavy Water Vodka could be sold is in five (5) star hotels such as Ritz Carlton, Hilton, Marriot and Shangri-La.

The market today has become saturated, and the customers are demanding new exciting products like Heavy Water Vodka. The big distributors on the market often have a very standardized portfolio and there are not often changes with new products. Therefore this can be an advantage for the small/medium sized distributors, which can provide a variety of new and exciting products that the larger distributors neglect or do not have in their portfolio.
MMB divides the Chinese population in three different segments.

1. Taiwan/Hong Kong who are familiar with the Western products and drinking behavior.
2. Chinese with good education who are curious about Western products.
3. The newly rich that might not have the same level of education as the once above.

Group 2 and 3 is the easiest to influence compared to group 1, which are heavily educated within the brand market.

Critical success factors:

- Face 2 Face
- Contact with the right people
- Building a brand name – example, using Chinese celebrities to promote the brand.
- To keep a close eye on the distributor moves and make sure everything is done how it is supposed to.
- Personal relations – its more than just selling wine its “GUANXI”.

Example: according to Cem Buze a cold winter’s day in February he was about to deliver six (6) cases of fine wines to a local restaurant outside of Shanghai. He had gotten to the delivery point in time but it was snowing and the streets was frozen, this unfortunate weather had made it impossible for the restaurant owner to show up in time to meet Cem Buze. As a result of this Cem Buze had to wait for 6 to 7 hours out in the freezing cold for the restaurant owner to come pick up his wine. The restaurant owner thought that the patience Cem Showed loyalty and that he wished to make a stronger bond between the two parties not only seeking profits.

Cem Buze recommends that Heavy Water International find a small and dynamic distributor, which can provide the brand with the attention and stability during the first phase of Heavy Water Internationals entry into China.
Interview with Lars Berge Andersen 17.04.2008 – Wikborg, Rein and Co. (International law firm)

Mr. Andersen started out the interview by presenting some general information as to who Wikborg, Rein and Co. are and what it is that they do. As a Norwegian law firm with offices in Shanghai, London, Kobe, Singapore and the like, they primarily focus on giving foreign companies advice in business law. Most of their customers in Shanghai are Norwegian (accounting for roughly 80%), while the rest of the customers are mostly made up of people from the other Scandinavian countries. The Shanghai office was set up in 2002, and right now they are the only Norwegian staffed law company in China. Although a lot of their clients are from the shipping industry, they cater to everyone in need of help with business law in China.

We started out by asking what legal aspects need to be kept in mind, considering that Heavy Water International wants to sell their product on the Chinese market. We were made aware that there are a lot of local laws and regulations that need to be adhered to, making the process of getting a product like Heavy Water Vodka to the market, a little different depending on which geographic zone you are operating in. We specified that the goal was to get the product into the very high-end outlets and clubs. And as we only have the capacity to research the Shanghai market, we asked for the rules and regulations in this specific zone.

Making a deal with a local distributor and making use of their import licenses to get the merchandise into China, is most likely the fastest and cheapest way to get access to the Chinese market. However this option has a risk attached. It is sometimes hard to know exactly what the local distributor is doing with regards to who they are selling to and how they are treating Heavy Water Internationals merchandise. In other words, the lack of hands-on management might get Heavy Water International into trouble in many different ways. This might be mishandling of the brand in the

![Diagram](image-url)
sense that it is being sold to others than the intended customers, or that Heavy Water Vodka bottles start to go missing, making it easier for criminals to make pirated, and potentially very dangerous versions of the merchandize. The potential for damage to Heavy Water International and the Heavy Water Vodka brand should not be underestimated. Mr. Andersen suggested that one way to avoid this might be to send down a Norwegian expat to be in the employ of the Chinese distributor (salary paid by Heavy Water International), and in that way achieve a degree of hands-on management. This might end up being a clumsy way of doing it though, because the Chinese distributor might regard the Norwegian expat as more of a nuisance than help, and subsequently just do as they please anyway. The Chinese management style sometimes tends to have all power concentrated at the top of the hierarchy, making the potential work of a Norwegian expat working in a Chinese business difficult.

The process of setting up shop in China

To set up a company in China, one needs to first apply for a license. This is needed regardless of which business one is operating in. The process of doing so in China is more complex than it is in Norway. To get a license there is a need to fill in the appropriate license application forms, often regarded by foreigners as quite the paper mill. There is also need to perform a feasibility study that has to be provided to the authorities to show that a project is worth doing. There is always a risk that the business plan may be denied, and in such cases there exists no appeal rights. Most well prepared feasibility studies/business plans are however approved. After the two steps mentioned above are completed, there is a need to start a new and separate registration process which can also be described as quite the paper mill. In the end, the process of setting up a company in China is likely to take anywhere between 3-4 months.

The Foreign Investment Catalogue is a database over different areas of business in China. It is divided into four main categories which are: encouraged, allowed, restricted and forbidden. Anything that isn’t mentioned in this catalogue is regarded as legal. In the recent years, the catalogue has been liberalized, so that most areas of business are now open for investment by foreign investors.

Businesses falling into the encouraged category are given special incentives in the
form of for example tax alleviation or cheap land, but that arrangement will be cut down by the coming New Year.

Businesses in the allowed category, are as the name suggests, allowed.

Businesses that are placed in the restricted category need to adhere to special regulations for that line of business to be approved. There might then be a need for extra approvals by other than the usual government agencies, or it might be a requirement that the business needs to be co-owned by Chinese interest, effectively reducing potential investment vehicles to one: Joint venture.

Businesses that operate in the forbidden category have no chance to establish themselves in China, regardless of any other considerations.

Keeping in mind the information that is available in the Foreign Investment Catalogue, investors will get a better understanding with regards to what kind of investment vehicle is of interest, as it is not even sure that there is more than one to choose from.

Provided that the business that is to be set up in China falls under the allowed category, one needs to choose which company form is the most suitable. Mr. Andersen gave us a rundown on the three most relevant models for getting access to the Shanghai market.

2 main models for entry on the Chinese market

Representative office
This option takes about 1 month to set up. There is no need for share capital. In essence this company form is just an extension of the mother company in Norway and its legal capacity is very limited. A rep. office is not allowed to have any form of revenue, and may only involve itself in marketing activities. Expats are allowed to work for a rep. office, but to employ Chinese manpower, Heavy Water International Norway must make a deal with FESCO (Foreign Enterprise Service Co.), a human resources services provider.

The idea here is that Heavy Water International could set up a rep. office in Shanghai to do all marketing activities such as handling contact with customers and work in collaboration with a Chinese distributor/trading company. There will most likely be a need to engage a Chinese distributor/trading company to handle import of Heavy Water Internationals merchandize, as most of the potential customers like Bar Rouge, M2 and Attica don’t have their own import licenses. The would need to be a contract between the Chinese distributor/trading company and Heavy Water International Norway with regards to arrangements tied to the importing issue and how big a cut of profits the Chinese company can keep for themselves, since the rep. office is not allowed to have any income. Basically the rep. office would handle all the marketing activities, and in that way have full control over the customer base. The profits from sales would be transferred from the distributor to Heavy Water International Norway.

Since a rep. office has no income, there is no income tax. Instead rep. offices pay
10% tax on annual expenditures.

The advantage of choosing a rep. office model for market entry is fast to set up, and requires little investment to start off.

**WFOE (Wholly Foreign Owned Enterprise)**

The process of setting up a WFOE follows the steps outlined in “the process of setting up shop” paragraph further up. The selling point for setting up a WFOE instead of a rep. office is that WFOEs are legal entities, and may do business in China.

There would be little point in setting up a WFOE, if Heavy Water International is going to collaborate with a Chinese importer/trading company when it comes to import and distribution, as a rep. office will be of the exact same use.

One way to do it could be to set up a WFOE named for example Heavy Water China, and then apply for the appropriate licenses needed to do business (import license, distribution license + any other regional specific licenses needed).

This is definitely the most expensive option as it requires more money to set up. Minimum stock capital is set at approximately 140,000 USD. There is also a need for more expertise in fields like international trade, marketing and cross-cultural communication. A positive element is that HWC would be in full control of the value chain. And over time, the rep. office set up option may end up costing a lot of money too, considering that a Chinese distributor/trader would not do the work related to importing and distribution for free. There is a 25% flat taxation level for WFOEs.

**Chinese Vodka regulations**

There are no restrictions on either import/distribution on Vodka or choice of investment vehicle. There is however a need to obtain some special licenses from the Chinese authorities. One of them is an “Alcohol Sale License” from the special bureau in charge of import/export and sales of alcohol in China. The other is the Chinese “Food Safety License”. There is also a requirement for companies that deal in import and/or distribution of alcohol to attend a state organized training course. This is off course not valid in the case of rep. office setup, as all
these requirements and responsibilities then will be handled by the Chinese distributor/trading company. There is a 400% import duty on wine and spirits.

**General point of importance**

Mr. Hansen emphasized these points of importance:

- Maintain full control over customer relations
- Never short any orders
- Maintain control over the money flow
- Company profit is easy to take out of China, but invested capital is not

**Wang, Sky. Operation Manager Muse 2, Plaza 66, 09.04.2008.**

The high end club M2 opened in August 2007. The club is located on the top of Plaza 66 which is a premium shopping mall with luxury brands like Gucci, Prada, Fendi & Dolce &Gabbana. The clientele is dominated by Chinese high end consumers with a lot of business people and models, but many foreigners are also represented.

Wang is the Operation Director at M2 and used to work as a manager for another club called Park 97.

He states that clubbing is very important in Shanghai, and every time a new club opens it is an important happening on the Shanghai club scene. M2 is often the recommended choice by hotels when hotel guests ask for nightlife and clubbing tips.

Wang tells that a M2 is a popular club for young clubgoers. This may be because the price level is between average and high so that young people can afford to go there.

Wang explains that vodka is one of the most popular drinks they sell, together with whisky and champagne. The most dominating vodka brands at M2 are Grey Goose, Belvedere, Smirnoff, Absolut, and Stolichnaya. Vodka is seen as a high class product at Shanghai clubs, and many foreigners often ask particularly after Grey Goose because they know the brand, and it is familiar to them.
M2 has only one distributor, Horeca. This distributor is not the same as the original Muse club in Shanghai uses. Almost every club has different distributors and it is important to find a unique distributor who can support the club in different ways.

Horeca is a big distributor throughout Shanghai and sponsors every event at M2. They sponsor with alcohol like vodka and champagne and event material like posters and flyers.

Another reason for M2’s distributor choice was the “black label” products that Horeca had in their portfolio which attracts more customers to the club.

According to Wang the main difference between foreigner and Chinese consumers is that foreigners often prefer cocktails, shooters or a bottle of Vodka or Champagne. Chinese consumers on the other hand prefer bottles of whisky like Chivas Regal or champagne. Many Chinese consumers are a bit sceptical to vodka because they think it is too strong, but Russian vodka is popular amongst the one that prefer vodka. When Wang started to work at Park 97 for about 8 years ago the Chinese consumers didn’t know how to drink shooters and cocktails the western way, so they had to educate them. “Today the Chinese consumers are more educated in what too drink and they adapt new drinking habits more easily”.

Regardless of this development whisky is still very popular, especially the old ones which are 21 years, 25 years and 38 years old. Whiskey is the same as vodka according to Wang, but a lot cheaper and it is popular to mix together with green tea, Coca Cola, Water, or just plain “on the rocks”. Wang means that Grey Goose is starting to get old and the customers are curious about new and exciting vodka brands. Like for example Solid Vodka which have some new mixtures or Belvedere according to Wang. If the distributor has a new brand in their product portfolio, the clubs purchasing decision depends on today’s fashion and if the new brand is popular “right” now.

Shanghai is a large international city now, with a lot of wealthy people. Many Chinese consumers like to show off with big bottles and fireworks on their tables, regardless of the price.
Lion Diao, Second Floor Manager at Park 97. The interview was conducted at Park 97, Fuxing Park 11.04.08

When attending this interview we thought that this would be a valuable and informative interview that could assist us further on when examining the Shanghai Vodka market. Unfortunately we experienced that this interview did not give us any new information with regards to consumer drinking habits and information about what distributors they use. However, we will portray what Lion Diao said about the Vodka market in general and Park 97. Interviewing the accurate people at the right time is essential for the thesis, as we experienced in this case.

Park 97 was the “it” place three years ago, before Bar Rouge on The Bund opened. Park 97 is separated into two floors. According to Diao Park 97 have about 20% Chinese clientele and 80% foreigners.

Further on he says that vodka is very trendy among the foreign clientele, and they fancy mixing it with different types of soft drinks like Redbull, Orange juice and Cranberry juice. He also states that the Chinese have a preference to whisky and gin, especially Black Label Whisky.

The interviewee tried to ask, which distributors Park 97 uses today, but the floor manager was not allowed to state this at the time. One thing he mentioned were that the distributors contributes with posters, payment to the DJ and unique offers when selling drinks from the bar. The distributor does not contribute with any types of alcohol; their mission is to contribute with Public Relations and to promote events.

When enquiring what brands they sold most of, Lion Diao said it depended on the promotion from the distributors which could differ from month to month, year to year. Vodka is sold through the bar or by having a bottle at the table. Also, he told us that there were no minimum charges at the tables, compared to other clubs like Bar Rouge or Attica.

Throughout the interview we tried to ask how Park 97 would accept a new brand, we did not mention Heavy Water Vodka. Lion Diao had no comment towards this, and also he could not answer any questions about who makes the decisions when taking in a new brand. So no valuable information was to be given from this
interview. Further on we asked about the design, the floor manager assumed that Grey Goose and Absolute were popular because it is recognizable when it comes to their design.

As you may see, the information from this interview is limited by interviewing the erroneous individual, and unfortunately the “accurate” individuals were not to be contacted.

**Strandås, Henning, VOSS ASA, Brand manager.** The interview was conducted at Element Fresh at Portman Hotel 01.04.2008.

Voss Water is premium-water from Norway sold in an elegant glass bottle. Voss water has established itself successfully as the most desired water for Hollywood-celebrities and for the upper-class since it is quite expensive. The Voss case is very similar compared to Heavy Water, and therefore important for the thesis.

Henning Strandås graduated from Fudan University in 2006, and at that time wrote his thesis for Voss Water, which led him to be a trainee in New York and Dubai before being a Brand Manager for Voss Water in Shanghai in 2007.

Strandås recommended Heavy Water International to start in the mature markets like Shanghai, Hong Kong and Beijing. “Vodka for the Chinese people is not the same as vodka for the Europeans” he states. Chivas Regal, a known distributor in Shanghai, has decided to use 50 % of their market strategy preferably on Chivas Whisky, and the rest of the percent on other well-know brands in their portfolio. Chivas Regal will concentrate their strategies toward the Chinese by promoting Chivas Whisky. The company is having many events localized at high-end KTVs (Karaoke TV) which is very popular among the Chinese. This is one barrier for Heavy Water Vodka, the local competition in the high-end market.

Further on Strandås advises Heavy Water International to find a suitable distributor who can benefit the company by having many important connections in the Shanghai market, and can help the brand to establish itself in this market. Henning Strandås especially recommended that Heavy Water Vodka were to place themselves in one-premise market which means at five (5) stars hotels like Hilton, Portman Ritz Carlton, JW Marriot and other hotels in this exclusive segment. Also within one-premise one can find high-end restaurant, clubs and
exclusive shops like City Shop at Portman Hotel. Here you can access Western goods you do not get anywhere else in Shanghai. Moreover high-end bars on The Bund, high-end lounges, Xintandi (a high-class district in the French Concession), exclusive gentlemen clubs, golf clubs and exclusive yacht clubs, would be some place Heavy Water Vodka could place itself.

Strandås is the brand manager as mentioned earlier for Voss Water in Shanghai, and when Voss were to enter this market they looked for a reliable distributor with no competitors in their portfolio, they also looked at the size of the company. Today the company cooperates with a distributor named ACS Fine Wines, which is the largest distributor in China.¹¹⁵ One thing they were particular with when choosing a distributor was the portfolio to the company, regarding competitors and how did the other brands suit with Voss Water. This is also something Heavy Water International might have to look at when choosing the right distributor.

According to Strandås one must build “Guanxi” with the distributor to prevent any misunderstandings. With “Guanxi” we mean the relationship between the distributor and Heavy Water International. Strandås told us that he actually had his office at the distributors’ place, ACS Fine Wines, so by this he could always build “Guanxi” with ACS.

Strandås mentioned some challenges for Heavy Water Vodka; one challenge on the Vodka market in Shanghai might be that the Chinese has not yet been properly educated about the different kinds of vodka such as the difference of dark and clear spirits. One other important thing according to Strandås was staff training. If Heavy Water Vodka were to be sold at a high class restaurant, club or hotel, the sales personnel have to be taught why the customers should drink Heavy Water Vodka instead of some other well known brands such as Grey Goose or Belvedere. When entering China, one barrier could be that a club like Bar Rouge demanded cash up front before they can sell Heavy Water Vodka. Many brands operate this way today, Voss Water have a policy of not to pay in front, because if you do it once then everybody will know. Therefore, a good distributor that can host events and get a good deal at the high-end market is very important. Especially since Heavy Water Vodka is a Scandinavian product with no

¹¹⁵ http://www.asc-wines.com/about_us.asp
knowledge to the Chinese market.

**Potez, Christopher, former marketing director of Solid XS. Marketing director at Jade set. The interview took place at Portman, Element Fresh**

**Date 25.04.08**

Mr. Potez used to work for Solid XS in the UK and moved to Shanghai when they entered the Shanghai market. Mr. Potez worked for Solid XS for eight (8) months before he left. The reason that he left them was because Solid XS aimed for the expat consumers in China and Mr. Potez wanted to work with the Chinese consumer groups to learn more about the Chinese market. Mr. Potez later started his own company called Jade Set, which now has the main responsibility of marketing Grey Goose Vodka in Shanghai.

Solid XS launched their vodka in Shanghai XX.XX.XX. Mr. Potez is not certain about why companies start their business in Shanghai, because it is not the biggest market in terms of sales volume. The bigger markets are located in other cities such as Beijing, Hong Zhou, Guangzhou and Nanjing. Mr. Potez also mentioned that the decision makers are often located in Beijing and one of the reasons might be because most of the government officials have their headquarters there. The reason why Solid chose to enter the Shanghai market first was because their distributor was located there.

Distributor decision, when Solid Vodka chose a market as Shanghai, was where the distributor was located.

If you can succeed in other markets than Shanghai, that has a higher volume of sales, then you have better grounds for becoming a success.

The value chain goes from the ultra rich Chinese people and down the value chain, like a snowball tumbling down a slope becoming bigger the further down it goes. So Christopher meant that it was not so important to have products endorsed by western celebrities, but rather by Chinese high standing people that are more known to the Asian world than the western world. The market will adopt a product faster if seen with Asian celebrities than western celebrities and also he mentioned that for the different markets within the Chinese market it is important to find a local known person to endorse a product.
“The Chinese people want to see themselves and feel that they are the focus”.

Trendsetters and urban opinion leaders that might be good to be associated with: musicians, artists, gallery owners, bankers and athletes.

Mr. Potez also thinks that the Chinese does not look at the western trends but rather at their own high standing people.

The Chinese might save up during the week to go out to party in the weekends. This might be considered as the newly rich showing of their money and status.

The “super rich” usually keep to themselves and prefer to have their privacy and can be characterized as a lot more civilized than most people think, or might perceive them as.

Most business meetings are conducted in English not much is done in Chinese. Chinese can be a plus for a foreign business man when creating Guanxi as it can be used to impress the Chinese but is not an overall important knowledge to have when doing business on the vodka market in China as most of the businesses has expertise in the English language.

The reason for this is that it is very easy to miss-interpret when doing business in Chinese and therefore a lot better to do the meetings in English, as it’s a universal business language.

The most challenging thing when conducting business in China is finding the right people to portray the brand in question in the right way. Especially for the vodka market it is hard, as you need to do launch events and get the right amount of exposure for your product. To find the distributor that matches you the best, the most important thing is to find the right people that can manage your business as best as possible.

Distributors choose you not the other way around this only applies when you’re a small brand. The reason for this is that the power level between the distributor and the brand is uneven and allows the stronger partner to have more influence on decisions. The distributor has the distribution networks setup, the sales personnel, the knowledge about the (local) market, the contacts with the different clubs and the relationship with the mafia (especially when it comes to the alcohol industry).
Mr. Potez stated that local distribution could be an advantage. What Solid XS did was find a local distributor and only have them in charge of the distribution and kept the marketing and sales within the company. This was also done to keep the brand image consistent and make sure that there was no deviation from the original brand image they wanted to set. Mr. Potez came with an example based Absolute Vodka of how things can go wrong when using one or more local distributors.

Example: Absolute Vodka uses one or more local distributors in the Chinese market and thus the marketing becomes very inconsistent and way too much over exposure of their brand, resulting with that their brand is now seen as a less exclusive brand.

Mr. Potez also talked about the importance of educating the Chinese to understand the concept of a brands image.

The difference between Beijing and Shanghai is that there is almost no big celebrities situated in the Shanghai area and therefore it might be difficult to find a local celebrity to endorse a product in Shanghai that the local crowd can relate to. This makes it harder to create the “right” VIP lists for events in Shanghai. Most movie celebrities and artists are situated in Hong Kong and Beijing primarily.

Solid XS aimed for the super premium segment and was priced around 1000 RMB when it first entered the Chinese market and has since dropped to around 700 to 800 RMB. One of the reasons for this is their inconsistency in their marketing, with too many events over short periods of time and poor localization of the events.

Mr. Potez now arranges the events for Grey Goose in Shanghai, which is only limited to one event per month to insure that there is no over exposure of their brand.

It is important to locate your events at key locations. Example if you are doing an event for a top vodka brand it might be done at the high-end bars such as bar rouge, muse 2 and Attica. Mr. Potez used an example when their event bureau did an event at bar rouge for grey goose with a Cannes movie theme.
First it is important to establish the brand and as the consumers become adapted to your product it is important to start portraying the products heritage and where it comes from (Country of origin) so that you create a whole story around your product.

Pricing is the most important tool you have; if you get the pricing wrong it’s like shooting yourself in the foot. So it is important to check out where your competitors has set their price and set your price accordingly. High price often reflects high quality for the Chinese consumers.

What’s the main difference between the western consumer and the Chinese consumers? The Chinese spirits market is still very young and immature.

Using a global image and adapting it to the local market is important. Potez did not give any additional information as to how to accomplish this.

Western consumers will do what they have learnt back home and the Chinese will do what the trendsetter does. So it’s important to find locally respected trendsetters to influence the Chinese consumers. An example Mr. Potez used was that Solid XS paid the right people with money and or alcohol to be seen with the products at certain high-end nightclubs.

Rich people will maybe go out early in the evening end go home around 23.00 to 24.00. So clubs might have two separate invites for their events, where they invite the richer Chinese people earlier in the evening maybe around 20.00 and then another invite for the international crowed around 22.00 to 23.00 as Foreign consumers usually goes out around that time.

Mr. Potez describes the ultra rich as very relaxed, sophisticated and very private people, but also very knowledgeable when it comes to western etiquette and trends. This type of consumers will maybe go out once a week or once every two weeks where they expect to get a table and get good service. These people can also be described as trendsetter for the high-end segments where as the newly rich consumer will learn from them and adopt their trends.

Distribution: many of the powerhouses (Grey Goose, Van Gogh and Bacardi) when it comes to the liquor market do their distribution in house.
The Chinese white collar employees like to have a place or product proven to be cool before they will go or buy a product. This might be where the expats shows the way.

Mr. Potez means that the highend bars are Volar, Bar Rouge, Muse, Muse 2, Babyface and Attica. He also mentions that around 15000 – 20000 people goes out to party in Shanghai every weekend, which is quiet small portion of the population in Shanghai. In despite of this Bar Rouge is one of the best selling clubs in terms of volume in Asia.

Leung, Karl – CEO of Wine Passion LLC (Limited Liability Company), former wine-importer within his own company in Beijing. The interview was conducted at Starbucks, Lin Ping Lu 07.05.2008.

Wine Passion Boutique was established in Shanghai 14 months ago, and is the first boutique in China aiming at the high-end wine and spirit market. Several Italian investors are investing in the company today, since the boutique is to expand in the future. The plan is to ascertain itself in Pudong and downtown area. Mr. Leung has in the past been a wine-importer in Beijing, with his own company named “Dezela”. Further on he told us that he had been in the wine and spirit market since 1993.

By having Wine Passion Boutique, Mr. Leung acquainted us with the consumers he had experienced with. He told us that ¼ were high-class Chinese and Hong Kong people, ¼ were overseas Asians such as Japanese, Koreans and Filipinos. Further on he told us that ¼ were local Chinese and the rest were Westerns from the HongKou district. Compared to other wine boutiques, Wine Passion is the only in Shanghai selling wine and spirits. He felt that by having both he could reach out to westerns and locals, especially since the westerns preferred spirit.

Mr. Leung told us that wine and spirit is inseparable for the Chinese consumers. They prefer Whisky, and in some occasions they buy high-end vodka. Such occasions may be like Golden Week Holiday, or through the National Days. He
also explained us the importance of history regarding brands entering the Chinese market. They are also very inspired by stories of heroism. Heavy Water Vodka could emphasize their story about the heroes from Telemark, Norway. (“The name was inspired from the Norwegian “heavy water” heroes (known as the heroes from Telemark) that destroyed the “heavy water” nuclear plant, and by that may have changed the outcome of World War II.” from the introduction in the thesis page 6)

Further on Mr. Leung emphasized us with his experience regarding costs of market-channels in China. He said that there are many misunderstandings regarding this. People mainly think of the high level of tax costs when entering this market; he could inform us with that tax is only one of the outsized costs when having a product in China. Transportation costs in China are quite expensive, especially if the company is to have distributors in provinces like Chengdu (according to Mr. Leung “the” place to live if you are rich) and not in the immense cities such as Shanghai and Beijing. Further on he told us that the costs regarding the market-channels are big, which is one of the reasons to why imported wine is priced on a high-level segment, and especially French and Spanish wine. Mr. Leung advises Heavy Water International to consider distribution cost and the channel costs in the different cities in China.

Today there are several global and well-know distributors in Shanghai, Beijing and Hong Kong. Mr. Leung mentioned Absolut, Stolichnaya and Wyborowa which has all been signed within big distributors such as LVMH, Pernod Rocard, MHD and Maxxim. “Spirit is just a type of drink in their portfolio” he stated. The volume is still small compared to whisky, but he thought that the number will increase heavily in the following years, which is also one of the main reasons for why he has spirits and wine in his boutique – which is quite unusual for wine stores.

We asked Mr. Leung on what Heavy Water International should think of when promoting the brand. He mentioned that a right distributor, a medium-sized which could focus on the task and present the brand “right” for different high-end clubs and hotels, would be essential. He also suggested that a gift bag from Heavy Water International at different events would be a good way to reach out to the
Chinese people. He also said that having events where the bottle is in the centre of the attention, and make it “spectacular” is something that would drawn the Chinese to this. By this he meant fireworks, ice-cubes and gift-bags.

Mr. Leung completed the interview by stating what he thought about the Heavy Water Vodka bottle; trendy, traditional to be vodka and something that would attract Chinese customers.

**Shanshan Xu, Law Professor at Fudan University and currently partner in Haihua Yongtai Law Firm.** The interview was conducted at Starbucks at Wanda Shopping Mall, 11.05.2008.

Mrs. Xu is a partner for Haihua Yongtai Law Firm, which is one of the largest Shanghai-based law firms, previously named Gubei Law Firm. The firm offers a broad spectrum of legal services including real estate and Infrastructure Construction, Finance and Securities, International Business, International financing, corporation investment and financing. Ms. Xu is also law professor at Fudan University teaching school of management’s students.

According to Mrs. Xu the most important barrier for Heavy Water International when entering the Chinese market is tariff. Today China has a general rate and a preferential rate at tariff for imports. The general tariff applies to goods from countries and regions that have not signed an equal tariff agreement with China. The preferential tariff rate refers to goods from countries and regions that have signed such agreement with China. The average import tariff rate is currently at 10, 4 %. Export tariffs range between 0 to 20 %.

Further on Mrs. Xu said that foreign-invested enterprises and foreign enterprises have to pay income tax on their income from the production, business or another source in China. Also, foreign-invested enterprises that have establishments in China have to pay incorporate tax of 30 % and local income tax of 3 % on the income from business operations and on profits. Tax on foreign-invested enterprises is paid in advance every quarter of the year.

*According to another law firm; Wikborg, Rein & Co there is a 400% import duty on wine and spirits into China.*
Mrs. Xu continued to inform the group that Heavy Water International also had to receive a certificate from the Food Agency; “General Standard for Food Labeling”

Mentioned briefly for Mrs. Xu that Heavy Water International were eager to find a suitable distributor in Shanghai, that could help them in the entry process within the high-end market. She informed us that a suitable distributor, Chinese or foreign, could help Heavy Water International on the subject of receiving the important licenses and certificates. But Heavy Water International had to ensure themselves that the distributor did not practise outside the law; Mrs. Xu told us that there were many cases regarding this. She told us that many foreigners brands, both in the wine and spirit business, had bad experience with several distributors which resulted in a number of lawsuits. Since the information about these cases is quite sensitive, she could not inform us about the distributors or the clients.

As Mrs. Xu saw it, Heavy Water International should first establish an office or a representative office in order to see how the market is. And after a while establish a wholly owned company with a preferable distributor. It is important to have a close relationship with the distributor in order to make sure that Heavy Water International will not be fraud.

Mrs. Xu gave us some important laws Heavy Water International should look at before entering the Chinese market.

“STATE ADMINISTRATION OF INDUSTRY & COMMERCE STATE BUREAU OF TECHNOLOGICAL SUPERVISION STATE ADMINISTRATION FOR THE INSPECTION OF IMPORT & EXPORT COMMODITY CUSTOMS GENERAL ADMINISTRATION ADMINISTRATIVE RULES FOR IMPORTED ALCOHOL IN CHINESE MARKET

(Promulgated by the State Economic and Trade Commission, the State Administration for Industry and Commerce, the Customs General Administration, the State Bureau of Technical Supervision, the Ministry of Public Health, and the State Administration of Import and Export Commodities Inspection on September 9, 1997)
CHAPTER I GENERAL PROVISIONS

Article 1 These Rules are formulated with the view to reinforcing the administration over imported alcohol in Chinese market, maintaining the operating order of the said commodity in China, and protecting the legitimate rights and interests of the producers, operators and customers.

Article 2 Imported alcohol mentioned in these Rules refers to various imported alcohol, excluding beer, bottled with preparatory packaging, barreled or semi-finished (primary alcohol), and those fermented alcohol which are bottled separately or bottled separately after being processed in Chinese territory (wine, champagne, fruit wine etc.), distilled alcohol (whisky, brandy, cognac, vodka, rum, grain-based liquor etc.), and compound alcohol (liqueur, vermouth).

Article 3 The State Economic and Trade Commission, the State Administration for Industry and Commerce, the Ministry of Public Health, the Customs General Administration, the State Bureau of Technical Supervision, and the State Administration of Import and Export Commodities Inspection shall administer the imported alcohol according to laws and their respective responsibilities.

Article 4 Imported alcohol in Chinese market shall subordinate to the following measures:

1. Supervision and administration by the Customs;
2. Supervision and administration on sanitation, including supervision and administration on sanitation at the port (sanitation quarantine, "Sanitation Supervision and Administration Marks of Imported Food", and sanitation certification administration etc.), supervision and administration on sanitation of domestic production and operation;
3. Quality supervision and administration;
4. Supervision and administration on market operation and marketing order; and
5. Duty-collecting administration and others.

Article 5 All enterprises within the territory of the People's Republic
of China engaged in production, processing or distribution of imported alcohol shall abide by these Rules.

CHAPTER II ADMINISTRATION ON PORT FOR IMPORTED ALCOHOL

Article 6 Supervision and inspection bodies for import food sanitation and quality at the port shall exercise their duties on imported alcohol (including imported duty-free alcohol) in accordance with laws. The importers shall provide the sanitation certificate of origin for import alcohol issued by the exporting country (region). The imported alcohol (excluding duty-free alcohol) shall be labelled in Chinese in line with the "General Standard for Food Labeling" and other relevant regulations.

Supervision and inspection bodies for import food sanitation and quality at the port shall exercise their duties on imported alcohol according to this Article. The aforementioned bodies shall attach "Sanitation Supervision and Administration Marks of Imported Food" on the qualified and subsequently issue sanitation certificate (original and duplicate), while prohibit those failing the standards from entering.

Article 7 The Customs shall supervise over and administer imported alcohol, collect duties and other taxes, and intercept smuggled goods in accordance with laws. Upon presentation of import commodity license issued by competent foreign economic and trade departments and the approval notice issued by the supervision and inspection bodies for import food sanitation, the Customs shall clear the alcohol after collecting duties.

CHAPTER III ADMINISTRATION ON IMPORTED ALCOHOL DISTRIBUTION IN CHINESE MARKET

Article 8 Administration on imported alcohol distribution in Chinese market refers to the administration on the stages of distribution such as wholesaling, retailing, storage and transportation of the imported alcohol.

Article 9 The wholesale enterprises dealing in imported alcohol shall be in compliance with the following conditions:
1. **Registered capital** (funds), **business venues and warehousing** facilities in compliance with the relevant regulations;
2. **Sound wholesaling management system**;
3. **Professionals familiar with knowledge on imported alcohol**
4. Stable wholesale network;
5. **Capable of identifying "Sanitation Supervision and Administration Marks of Imported Food"**;
6. **Sanitation certificate** issued by sanitation administrative departments
7. In compliance with other conditions stipulated in national laws and regulations.

**Article 10** For qualification confirmation for the wholesale enterprises engaged in imported alcohol: the **State Administration for Industry and Commerce** shall examine those in its registration range according to Article 9, and register the legal person for the enterprise. Any problems arising there from shall be addressed by the State Economic and Trade Commission and the aforementioned Administration after consultation with relevant departments; the local administration for industry and commerce of provinces, autonomous regions and municipalities directly under the Central Government shall examine the local wholesale enterprises according to Article 9, and register the legal person for the enterprise according to the registration regulations. **Any problems arising there from shall be addressed by the local economic and trade commission** (economic commission, planning and economic commission) and the local administration for industry and commerce of provinces, autonomous regions and municipalities directly under the Central Government after consultation with relevant departments.

The enterprises are prohibited for engaging in the wholesale business of imported alcohol prior to registration.

**Article 11** To engage in retail business of imported alcohol, the enterprises shall obtain sanitation license issued by the local public health administration and register themselves at the local administration for industry and commerce after being examined and
verified.

Article 12 The enterprises selling imported alcohol shall abide by the following regulations:

1. Bearing the commodities import license (copy acceptable), Customs duty-paid voucher (copy acceptable) and sanitation certificate (original and duplicate), and the imported alcohol to be sold shall be correspondingly labeled in Chinese as required in Article 6, clause 3 and with "Sanitation Supervision and Administration Marks of Imported Food" as in clause 4;

2. No forgery of alteration of quality identifications such as "Sanitation Supervision and Administration Marks of Imported Alcohol", verification marks and the Chinese label;

3. No production or sale of sham and shoddy imported alcohol;

4. No sale of smuggled alcohol; and

5. Acception of relevant vocational training and guiding on quality and sanitary standards.

Article 13 The competent authorities of enterprises selling imported alcohol and those of tourist restaurants, hotels shall guide the establishment and standard of imported alcohol mixing and distribution centers, of chain-operation and agent service, in order to create a sound distribution network, pursuant to their obligations stipulated by the State.

CHAPTER IV ADMINISTRATION ON PRODUCING AND PROCESSING IMPORTED ALCOHOL

Article 14 Upon the Customs clearance, the barrelled original and semi-finished imported alcohol, which are subsequently processed i.e. bottled, mixed, filtrated, stored, and sold under a foreign brand in China, shall be administered as imported alcohol.

Article 15 The equity joint ventures and the contractual joint ventures engaged in producing and processing imported alcohol shall re-export the required portion of the product in case that such articles are stipulated in their contracts. The State Administration of Import and Export Commodities Inspection and its testing branches shall administer, inspect and test the re-exports on the basis of relevant regulations on
export food. In case of domestic sale of imported alcohol which cannot be re-exported for certain reasons, import formalities shall be completed according to the relevant regulations. Upon the Customs verification, relevant formalities for general imported alcohol are applicable in such case.

The foreign-invested enterprises legally established prior to the promulgation of these Rules shall sell the imported alcohol within their business scope set in the jointly-operating contracts or regulations, and shall obtain permission to sell their own products within the business scope according to the approval documents of foreign economic and trade departments.

Article 16 The local public health administration shall supervise and administer on sanitation of producing and processing enterprises listed in Article 14 and 15.

Article 17 Departments in charge and producing enterprises of imported alcohol shall set up the technical and quality examining standards for making and processing imported alcohol.

CHAPTER V ADMINISTRATION ON DUTY-FREE IMPORTED ALCOHOL

Article 18 The Customs at port shall supervise over and administer the duty-free imported alcohol according to relevant regulations stipulated by the Customs General Administration.

Article 19 The duty-free imported alcohol are prohibited from domestic sale. The State prohibits any organization or individual from purchasing and selling duty-free imported alcohol at the port or any other places.

CHAPTER VI MEASURES AGAINST THE ILLEGAL IMPORTATION OF ALCOHOL

Article 20 The Customs shall punish the illegal importation of alcohol pursuant to the relevant regulations of "the Customs Law of the People's Republic of China" and "Detailed Implementation Rules for Administrative Punishment on the Customs Law of the People's Republic of China".

Article 21 The administrative bodies for industry and commerce shall examine and punish the illegal sale of smuggled alcohol pursuant to the
relevant regulations for "the Provisional Regulations for Administrative Punishment on Speculation and Profiteering" and its "Detailed Implementing Rules".

**Article 22** According to Article 6, the legally confiscated imported alcohol shall be submitted to the inspection and test of the supervision and inspection bodies for imported food sanitation at the port. The qualified shall carry the Chinese label, "Sanitation Supervision and Administration Marks of Imported Food" and be reissued sanitation certificate (original and duplicate) before being sold in domestic market through auction.

**CHAPTER VII SUPERVISION, INSPECTION AND ADMINISTRATION ON THE IMPORTED ALCOHOL MARKET**

**Article 23** The local economic and trade commissions (economic commissions, planning and economic commissions), and the departments in charge of the administration for industry and commerce, the technical supervision, the sanitation administration, the commodities inspection, and the tax authorities at various levels, as well as the Customs and the supervision and inspection bodies for imported food sanitation at the port shall cooperate and coordinate within the range of their respective responsibility, launch united and well-organized joint-inspections over the local imported alcohol market, and ensure administration over the production and distribution of imported alcohol.

**Article 24** The consumers have the right to inquire the producers and dealers about the quality, sanitation, price and other problems of the imported alcohol, or to appeal to the competent departments of the producers and operators according to laws. The inquired and the departments upon acceptance of the claims shall reply and react within a month.

**Article 25** Any organization or individual has the right to report to the relevant departments violations against these rules according to laws.
The said departments shall commend and reward the meritorious reporters.

CHAPTER VIII LEGAL RESPONSIBILITIES

Article 26 Based on the relevant laws and regulations, the Customs, the administration for industry and commerce, technical supervision, public health administration, sanitation supervision and inspection organizations on imported food at the port, commodities inspection bodies, tax authorities, public security and other relevant departments shall carry out the administrative penalties to the organizations or individuals violating these Rules; where criminal law may have been violated, the case shall be turned over to the judicial departments to pursue their criminal responsibilities.”

Mrs. Xu completed the interview by mentioning Intellectual Property Trademark which can help Heavy Water International to keep the trademark, since the Chinese are quite good at copying products. This would be a challenge that they must overcome, and by that she meant that Heavy Water International might change the bottle cap in order to secure the bottle and its liquor. This would also be something the Government will look at, (see the laws above - “General Standard for Food Labeling”.) Mrs. Xu also said that “Guanxi” (relationship) with the Chinese Government would be a key factor when entering this market.

She concluded the interview by recommend a Chinese law firm, since it will be cheaper and easier for the layer regarding the Government (Chinese language problems if there is an international firm that may not have translators).

SHI, Qin. Senior Market Advisor, Innovation Norway, Commercial Section - Royal Norwegian Consulate General. E-mail interview, 15.05.2008.

As you may know, Innovation Norway - here as commercial section of Norwegian Consulate - is purposed to help Norwegian companies that have ambition to enter Chinese market. We not only provide consultation in China strategy, assist Norwegian companies in mapping customers and partners, but also offer financial support for promising business plans (this part is done in Norway).
We see there is potential for Heavy Water and would like to offer our help if it's of Heavy Water's interest. We would very much appreciate if you could inform Heavy Water of the existence of these possible helps which we believe are valuable to them.

Having read through the Heavy Water Vodka presentation, we're delighted to share our understanding of the market and would like to discuss further on strategy if it's interesting for the company.

Chinese consumer market has been growing fast and the sector of import alcohol drinks is thriving these years as well. In terms of market share or public acknowledgement, import wine is dominant in considerable proportion. As to the consumption of liqueur/spirits, whisky and brandy are prevailing choices on business entertainment occasions thanks to heavy TV commercials. Vodka emerged quite recently with Absolute as representative which did a good job in introducing to Chinese consumers the concept of drinking Vodka and has influenced quite a group of young people that are eager to follow the fashion. Absolute seems to grow very fast and can be found not only in bars but liqueur stores and modern supermarkets as well. Other brands are also seen in market yet may conduct different strategies.

China has been opening for decades and political barrier for importing consumer goods is no longer an issue. Yet regular import procedure has to be followed, including inspection certificate by Chinese food & drugs administration and customs clarification, which are common sense. The essential issue we see of a foreign product penetrating Chinese market is rather branding and marketing.

We believe there is a market for Heavy Water in China, while it all depends on design and effectively conduction of a marketing strategy. Therefore, we'd suggest that Heavy Water consider following aspects while working on its China strategy:

China has its particulars in terms of culture, mentality, and consumer habits. The huge potential may just maintain potential, if these aspects are not carefully integrated in branding or marketing.
Which group of the vast population will be Heavy Water target customers? Absolute seems to focus on young professionals and Smirnoff black started in Tier two cities. Would Heavy Water initiate a different approach?

There are various forms Heavy Water may consider to operate business in China. Does a competent agent/distributor fit into Heavy Water's strategy? Or is Heavy Water better off with just an importer? Or doing on own (set up a presence in form of a representative office or a trading company) is a good option?

There are several retail channels of selling liqueur/spirits, such as bars/hotels, liqueur/wine stores, (fancy and expensive) supermarkets, e-business (many Chinese distributors use this channel), as well as TV sales. Which channel can be effective to initiate and which shall be following up?

How would Heavy Water advertise its product in China? TV, fashion magazine, or public activity? Again, the first question about culture and consumer habit shall be well considered here. To stereotype is the last suggestion we would give.

Working capital can be an issue, too, if it's not a first one. This can be a factor in determination of distribution channels and advertisement channels.

Pedersen, Pål Andre. CEO, Heavy Water International. E-mail interview. 02.02.2008

1. Total numbers of employees in the company?

**Answer:** We are working with importers and distributors in all markets and need a very small amount of staff.

Totally in Heavy Water International we are 9 employees.

2. How many travel around?

**Answer:** 7

3. Total numbers of Offices internationally?
There are seven offices. HQ in Oslo. Importers in 9 markets in Europe and New Jersey (US)

4. What is HD podcast for "Entourage"?

**Answer:** Entourage is one of the most popular TV series in US at the moment. We, as the first player in the business, did High Definition Podcast with the actors at Marquee in NY. It was running in all breaks during one full week in US. Approximately 50 mill viewers.

5. What do you call the strategy Heavy Water International have used in other markets?

**Answer:** Bottom up linked with the right people. We have not paid any person or marketing campaign (advertising) for HW so far.

6. There are three different distribution strategies:

   - Exclusive distribution
   - Selective distribution
   - Intensive distribution

(Exclusive distribution means that there is very restricted number of intermediaries. This distribution strategy often includes exclusive distribution rights with the aim of creating a stronger bond between the seller and reseller.

Selective distribution means that the seller uses several distributors but not as many as those willing to distribute the particular product.

Intensive distribution means that the seller uses as many distributors as possible.

Which one does Heavy Water International use?

**Answer:** Exclusive! It’s important that we get full focus and commitment with our partner. It’s also very difficult to adm a more complex set-up vs prices and approach to the market.

7. Heavy Water International goals in China?
**Answer:** As you could read from the market data, the premium vodka category is not big in China. The market is interesting because we assume that in the next 5 years the buying power and focus on luxury brands will increase more here than in other markets. The goal is to create brand awareness and establish a good distributor-connection when the market starts to develop.

8. Does Heavy Water International have the financial ability to lose money the first 1-5 years in China?

**Answer:** Yes, but we are always building step by step and will not use money on big advertising campaigns, more on direct consumer marketing.

9. Understanding of the Chinese market?

**Answer:** Big picture, not detailed experience.

10. Price, the same as explained in the sales and marketing presentation (5% below Grey Goose)?

**Answer:** Yes, parity or 5% below GG, or 25% above Absolut.

11. Key selling points?

**Answer:** Standing out, unique.

Scandinavian: pure, soft, clean, flawless purity.

Design: award winning package and design. BTI San Francisco and Monaco in 2007. Gold medal and winner of all Vodkas

Quality of liquid: award winning: Gold medal in BTI in 2007

Small company with passionate people: dynamic and creative.

12. Scandinavian heritage? How do you use this in your marketing?

**Answer:** 2nd world war; in 1943 9 Norwegian Heroes managed to sabotage the German development of nuclear bomb > Heavy Water was created of that story.
A small group of people can change the world.

First Christian King of Sweden (Olov) was baptized from the same water-source around 1000 ac. The water is coming from the purest water-source in Sweden and still the royal family baptize their children in the same water.

9.2 Appendix 2
Consumption Summary: White Spirits; Vodka. As you may see in 1997 the consumption were initiated 30.000 nine liter cases and increased to 353 000 cases in 2007 in China.

| Category : CONSUMPTION SUMMARY CHINA Consumption of Spirits: local spirit vs. imported spirit; Vodka. The local consumption were 30.000 nine liter cases in 1997, and initiated to 363 000 cases in 2007. Compared to imported vodka there were about 20 000 nine liter cases in 1997, and initiated to 363 000 cases in 2007, which estimates that the imported vodka is increasingly fast into China. |
Local vs. import spirits continue

Category : CONSUMPTION SUMMARY

 Local vs. import spirits continue

Category : CONSUMPTION SUMMARY

BRAND SALES - 000 9 Litre Cases

Source: TRA Toyota

Source: TRA Toyota
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<th>1999</th>
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<th>2001</th>
<th>2002</th>
<th>2003/04</th>
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Source: Vodka Consultant