

Beginning in 1934 as Montana Wines, Brancott Estate is based in Marlborough but they also craft wines from other wine growing regions of New Zealand. Currently they do not export any wine overseas so is totally reliant on wine being sold in New Zealand. However, **Brancott has strong potential to export wine overseas, especially to China.**

While the wine market in China is new, it is growing at a rapid rate and according to NZTE it is expected to reach a value of close to US\$19 billion within three years. Wine consumption is mainly driven by the young and affluent class in China's urban centres. Although the market is dominated by domestic brands, international brands are perceived highly by Chinese consumers, which is good news for Brancott. With imports currently accounting for one-fifth of China's domestic market demand, this represents huge export opportunities for Brancott Estate and other New Zealand wine companies. 2

#### *Growth drives in China*

- China currently has many growth drivers which are helping overseas businesses not only to sell products easier but also to have easier ways of importing products. China's wine market will continue to register strong percentage growth in the forecast period due to rising affluence of the middle income earners in major cities and an increasing adaptation of Western dining habits. Imported wine is warmly welcomed by Chinese consumers and is perceived as being of high quality with a better taste. Consumers have also shown a preference for fruitier flavours. Concerns over wine makers in China and growing health and safety awareness will drive consumers to rely on trusted international brands that have been sourced from reliable destinations such as New Zealand. 2
- Chinese consumers are becoming more knowledgeable about grape wines. This is good news from Brancott as they are good at growing grapes on their vineyard in Marlborough and have great care and respect for their land and the surrounding natural resources. Wine information, such as brand history and taste features, are listed on Brancott's website and this could help Chinese buyers select wine.
- China was New Zealand's sixth and seventh largest export destination for wine in terms of value and quantity respectively. Wine exports (by other winemakers) totalled around US\$18 million, representing an increase of 87 percent.

#### *Transport*

The physical distances within China and the huge population means businesses are often better to concentrate on one city or province. This lowers travel time and travel cost. However, Brancott's location in Marlborough may add an extra cost to the business, having to get their wine from the remote location to the ports of either Christchurch or Wellington. Despite this, transport does not have a huge impact on Brancott. Wine gets better with age so transportation will not impact the product.

*Information on support and advice from government and non-government agencies omitted from this exemplar.*

#### *Exchange rates*

New Zealand has a free trade agreement with China that allows goods from New Zealand to enter China at lower duty rates than those available to countries that do not have such an agreement. Under the agreement, duty rates will reduce to zero on most New Zealand goods exported to China by 2019. 3

One of the biggest issues with exporting is the fluctuating exchange rate. This means Brancott may not be making a strong return against the Chinese yuan and exporting may not be worth it. There are two options for the business to implement which could protect Brancott against changes in the exchange rate.

- 1 A forward exchange contract would provide Brancott with a fixed exchange rate for settlement on a future date or between two future dates. This way removes the exchange rate risk and provides a fixed rate to cover any major changes. However, the solution doesn't allow Brancott to take advantage if rates move in their direction as they must stick with the agreed contract rate.
- 2 A vanilla currency option would allow Brancott to have a flexible means of having protection against major exchange rate moves – similar to forward exchange contract – while at the same time allowing Brancott to take advantage if rates move in their favour. However, given this flexibility it will require payment of an upfront premium which may be too costly.

#### *Risks*

- Brancott's reputation as a trusted wine producer could be affected if exporting to China does not prove to be successful.
- Loss of intellectual property.
- Credit risk or financial risk, meaning the risks of non-payment, late payment or even fraud by foreign buyers.
- The demand for the product in the export market may dry up before profits reach full potential.
- Competition from other similar products in the export market.

- Brancott would require additional financing to fund the export business, which may fail.
  - Product may not reach the export market due to issues or bottlenecks such as theft or other non-tariff barriers.
- Several other risks omitted from this exemplar.*

#### *Opportunities*

- The biggest bonus would be a new income stream and increasing volumes of sales.
- Brancott could see enhanced domestic competitiveness of their products.
- The company would no longer be reliant on the domestic market.
- Brancott could expand company awareness of other similar products worldwide and boost other markets like tourism for New Zealand, should exporting their wine be successful.

#### *Evaluation*

When it comes to exporting, fortune seems to favour the brave. And while the risks require caution, when considering international opportunities Brancott shouldn't allow fear of any sort prevent them from enjoying what should be, if they prepare correctly, a profitable outcome.

Brancott have never exported before so they perceive all kinds of risks that are relatively easy to manage and are outweighed by the advantages in terms of new income and increasing volumes.

I believe the first move for Brancott is to recruit a member of staff with experience of selling into China. This person would have the contacts, know the ropes and have knowledge of the risks.

To deal with unknown problems you first need to minimise the degree of unknown risk. This is largely about gaining knowledge. There are plenty of opportunities to find out about particular countries and trading overseas in general.

The New Zealand Trade & Enterprise (NZTE) has access to such information and can help Brancott. Intellectual Property needs to be protected.

According to NZTE, the most common problems for new exporters is failing to deliver on time because documents are wrong, meaning goods have difficulty getting past customs. Another common problem is appointing the wrong person or organisation to represent you overseas.

It's important that Brancott makes close connections with businesses in China so that importing into the country is as easy as possible.

Overall, Brancott is excellent at selling its brand locally. It is well-liked and follows all the right steps and if they follow the right steps overseas, they have the potential to do very well.

#### *Consultation*

I consulted by email with John Argyle, Brancott's vineyard manager and New Zealand Trade & Enterprise. I also used secondary research with the many websites listed in my bibliography.

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