

BUSINESS PLAN

MARRAMIERO: THE ITALIAN WINE FOR CHINA



Team Members

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1.EXECUTIVE SUMMARY

1.1 China Overview

China represents one of the most interesting and fast-growing markets. The country's potential is huge, in purchasing power parity terms, China is the world's second biggest economy. Official figures show that GDP has grown on average by 9% a year over the past 25 years with an estimate of 10.4% recorded for 2007. A growing share of China's economic growth has been generated in the private sector as the government has opened up industries to domestic and foreign competition, though the role of the state in ownership and planning remains extensive. China's entry into the World Trade Organisation in December 2001 is further integrating China into the global economy.

The phenomenal growth of the Chinese economy over the past decade has encouraged international suppliers to export wines to China. Understandably, China is the most populated country in the world and the economy has been growing at over twice the rate of the world average, and thus appears to be one of the largest future markets for many imported products. Indeed international suppliers thirst after the idea of a huge potential market in a country of over 1,300,000,000 people. Moreover, living standards have improved dramatically since China's adoption of market-oriented economy.

In terms of GDP, China ranks 4th in the world, and ranks second in terms of purchasing power parity. About 211 million Chinese are middle class in terms of income, and moreover, it appears that over 300 million are middle class according to their consumption patterns, and over 400 million consider themselves middle class. These are huge numbers no matter how one calculates the population of middle-class consumers.

China also represents a big market for wine - sales have been increasing substantially in China in the last years, as illustrated in the figure below.

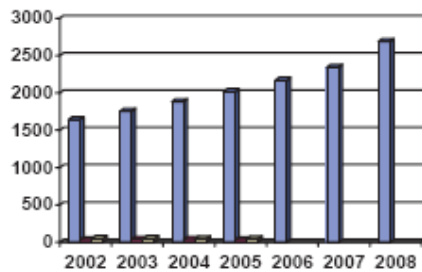


Figure 2 Wine sales in China.

Notes: Based on data from Jenster and colleagues (2008), Euromonitor International (2008), and estimated year-end sales, 2008.

China's wine consumption has been continuously increasing since the the late 1990's. The per capita consumption of wines rose from 0.29 litres in 2002 to 0.7 litre in 2008. In the same year, China's imported value of wine was 0.25 billion dollars, a 43.48% increase compared to the imported value of 2007. Besides, the IWSR (International Wine and Spirit Record) estimates that the global total consumption of wine will reach 0.24 billion hl in 2010, representing a 9.15% increase, but China's wine consumption will come to 5.6million hl, representing a 36% increase in 2010. China will be the biggest market for wine.

1.2 Guangdong province as our specific target

In particular, we chose Guangdong province for our project, because Chinese market is a complex and different and should not be viewed as a homogeneous unit, but each province is to be considered as a separate market. Our choice of the Guangdong province in general, with special attention to its capital Guangzhou is based upon the fact that it is the most dynamic economic region in China today. The GDP of Guangdong Province in 2007 reached CNY 3.0606 trillion, with a growth rate of 14.5%, exceeding the average value of “four small dragons” in Asia (Hong Kong, Taiwan, Singapore, and Korea). Guangdong has large consumption ability in liquor. According to 2007 statistics, the amount of the annual consumption of liquor in Guangdong is up to 26 billion, of which red wine, wines, and spirits accounted for 23% of country's total consumptions. There are 130000 enterprises engaged in liquor trade in Guangdong, with the open concept to market, a huge consumer groups, a variety of consumer-level, high consumption potential, as well as tolerance consumption concept.

2.OUR PROJECT

The scope of our project is to import Italian wine to China and promote its distribution and sales in the province of Guangdong in the South of China. We chose Abruzzo Region's Marramiero wines as a starting point and in case of a successful launch of this project will be looking into possibilities of expanding our offer, taking on board other Italian wines for promotion in Guangdong. Marramiero is a long-established winery with both experience and traditions and a capacity for innovative techniques and modern management.

According to our research of the market and taking into consideration the prevailing taste of the Chinese for red wines, we have chosen three Marramiero products – red wines – Dama, Inferi and Incanto for launching our promotion. We are planning to set up a wholly foreign-owned company and operate through the established distributors (see the list), as well as through high-end restaurants, hotels, discos, wine-bars, commercial centers, participating also in wine-promotion events: fairs, festivals, Italian cuisine promotions, etc.

In this respect Guangdong represents the obvious choice as there it is not fit for grape planting and there are no local wines. Also, due to fast economic development and cultural environment, wine consumers are mainly white-collar people with high salary, rich knowledge and good taste, for example, foreign trade personnel and creative directors etc. They are major consumers of wine, medium and high grade wine and imported wine, in particular. Furthermore, thanks to long-term popularization, more and more consumers, including local senior citizens have begun to drink wine in daily life.

3.INTRODUCTION

3.1 BUSINESS IDEA

MARRAMIERO: THE ITALIAN WINE FOR CHINA

We have chosen to call our business plan *Marramiero: the Italian wine for China*, because our aim is more than just sales of Italian red wines in Guangdong, but also promotion of wine-

drinking culture and developing taste for high-quality wines in the consumers, presenting an image of Italian quality of life.

3.2 OBJECTIVES

1. To promote Italian wine drinking culture in all the eastern coastal cities.
2. The main focus would be to popularize and maintain the finest quality so that we have the trust of people.
3. To make Marramiero a recognizable brand in China.
4. To establish a constant chain of customers among wine shops, bars, restraints, hotels... etc.
5. To promote the image of high quality Italian wines.
6. Establish our presence in China in Guangdong in the form of a wholly foreign-owned enterprise.
7. To expand significantly exports of Marramiero wines to China.
8. To make long-term working relationships with big distributors

3.3 COMPANY PROFILE

www.marramiero.it

Between the Adriatic Sea and the Gran Sasso Mountains, at 270 mt., on the hills around Pescara, the Marramiero family has grown wines since the beginning of last century. During the '60ies and the '70ies, new vineyards have been planted after a careful selection of the already existing wines. At the beginning of the '90ies, Dante Marramiero gave birth to his plant: processing grapes, ageing and bottling wine. His children Enrico e Patrizia have received his inheritance and founded Marramiero farm in collaboration with the oenologist Romeo Taraborrelli and the manager Antonio Chiavaroli. The Marramiero wines are the result of this story where the love for land and the care for progress meet and blend together with the devotion to work and the birth of art , the respect for the most ancient winemaking processes and the use of the most modern techniques.

3.3.1 PRODUCTS

According to our researches, we selected three Marramiero products (red wines- Montepulciano d'Abruzzo): Dama, Incanto and Inferi for promotion on the Chinese market. Different quality, different prices to adapt ourselves to the requirements of the chosen market segmentation.



INFERI: From a selected vineyard of great importance in structure and size comes INFERI, produced in limited quantities. The ageing of at least twelve months in French and Slavonies oak casks of different capacity and the following refinement in the bottle complete its maturity. Its ruby red colour with dark red sparkling reflections, its intense and vanilla speckled fragrance, its persistent, warm, rich and harmonious taste make it at the same time a distinguished and leading wine. You can appreciate its qualities completely having it with pasta with mushrooms and truffles, with beef and game, with mature cheese, salami and ham, at the ideal temperature of 18°/20°.

Alcoholic Strength 14%.



INCANTO: This wine is made in a very favourable area on the hills of Pescara. The nature of the soil gives the vineyard exceptional balance: hence the extraordinary quality concentration of each bunch of grapes. This is how this strong and elegant wine is made. Ruby red colour with purple shades. This wine offers a wide range of ripe and concentrated fragrances, a smooth and harmonious fruity fragrance, with plum, date and fig hints, all combined with herbs. Powerful and elegant tannins with full-bodies and persistent. It is the perfect match for grilled meat and cheese. Serve at temperature 18°/20°

Alcoholic strength 14%



DAMA – MONTEPULCIANO D’ABRUZZO DOC: The selecting grapes production our Montepulciano d’Abruzzo d.o.c. Dama ripen in different, variously exposed vineyards. Its colour is ruby with some dark red nuances, it has a good olfactory persistence tending to the liquorice flavour. It is rich and harmonious on the palate. It can be served with anything but it links with roasted and stewed meat, with salami, ham and cheese, at the ideal temperature of 18°/20°.

Alcoholic strength 13,5%

4. COMMERCIAL PLAN

4.1 GUANGZHOU WINE MARKET OVERVIEW

Guangzhou, both economic center of South China and Pearl River Delta, the most prosperous area in China, is also transfer station connecting two international trade ports, Hong Kong and Macao with mainland China.

There is a resident population of 12,000,000 and floating population of 6,000,000 in Guangzhou. Among the floating population, there are not only businessmen and migrant workers from around China, but also a lot of people from abroad, Hong Kong and Macao. These consumers from abroad, Hong Kong and Macao have not only promoted economic and cultural exchange between Guangzhou and abroad but also boosted the fast development of wine market in Guangzhou. In more and more business negotiation and meetings, grape wine has gradually been the mainstream wine.

In Guangzhou, there are over 200 star-rated hotels at present and will reach 300 two years later. In addition, there are over 3000 restaurants above Grade C, 400 bars and clubs, over 100 large-scale shopping malls and supermarkets, over 1000 small and medium-scale shopping malls and supermarkets, over 2000 cigarette and wine franchised stores and specialized wine wholesale markets.

In 2006, total wine consumption in Guangdong Province amounted to 2 billion yuan, among which Guangzhou had a market share of nearly 1 billion yuan. Of the 1 billion yuan market share, nearly all top-grade wine was imported. Most domestic wine was middle and lower grade products with a price less than 80 Yuan.

4.2 Consumers

Impacted by economic development and cultural environment, wine consumers are mainly white-collar people with high salary, rich knowledge and good taste, for example, foreign trade personnel and creative directors etc. They are major consumers of wine, medium and high grade wine and imported wine, in particular.

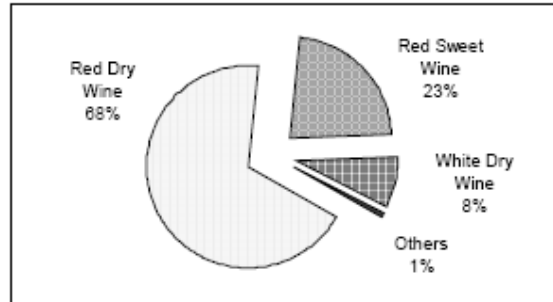
Furthermore, thanks to long-term popularization, more and more consumers, including local senior citizens have begun to drink wine in daily life. The wine is mainly domestic wine priced at between 25-50 yuan.

All imported brands have staged frequent wine tasting and promotion activities one after another. The participants of these wine tasting activities are generally embassies personnel of relevant countries, government officials, exclusive agents, consumers, wine associations as well as professional media etc. They attach greater importance to potential market in China, so their promotion focuses more on culture instead of anxious business invitation and marketing.

The preferred type of wine varies from region to region. For example, sweet red wine is more popular in the northern part of the country than in the south. Nationally, dry

red wine is still the most preferred type of wine by Chinese consumers, and sweet red wine holds the second position (see the Chart).

Chart 1. Consumer's Preference of Wine Type



Source: Channel Consulting Ltd - Peking

4.3 Market and distribution channel

There is a great variety of wine in Guangzhou, including dry red wine, dry white wine, sparkling wine and ice wine etc.

As Guangdong is not fit for grape planting, there is no local wine. There are mainly four kinds of wine products in Guangzhou. The first one is imported wine completely produced in foreign countries, including high-quality wine from France, Italy, Spain, Portugal, Germany, U.S.A., Canada, Chile, Argentina and Australia. The second kind is foreign brand wine which is packaged in China with imported grape juice. The third kind is wine produced in other areas of China. In addition to three major brands, Great Wall, Dynasty and Changyu, there are also such Grade-B and Grade-C brands as Suntime, Weilong, Baiyang River, Helan Mountain, Jinxiuzhuangyuan, and Golden Great Wall. It can be said that nearly all wine from all production areas can be found here. The fourth kind is OEM wine produced in the above-mentioned area by Guangdong businessmen.

The market share of domestic brand is close to that of imported brand. Among domestic brands, Great Wall, with Zhongliang Great Wall, Huaxia Great Wall and Tantai Great Wall as its members, enjoy a relatively large market share.

In addition, Changyu, Great Wall and Dynasty, with its popularity and reputation, have been the strong brands in Guangdong. The major reason why current quantity of imported wine is less than nationally famous wine is that imported wine is mostly produced in foreign wineries with limited capacity and output, so it's difficult for them to invest much in promotion and popularization. They are popularized mainly with words-of-mouth. Therefore, customers don't know what standard to follow when facing dozens of, even hundreds of foreign brand wine.

On top of that, medium and high grade wine has been consumption mainstream. In addition to wine completely imported from abroad, domestic vintage wine has also been greatly favored. For example, such high-end products as Chanyu and Castel Chateau have been more popular with domestic consumers.

5. MARKETING PLAN

5.1 Keys to Success

Branding wine as a quality wine is an essential start. But the most important key to a successful export strategy to China is establishing a long term relationship with new consumers, sustaining long term promotion.

In this regard, exporters have to face different challenge. First of all, the average Chinese consumer is not only unaware of the label, he is skeptical of foreign products at first sight.

Further conflict arises between brand loyalty and price sensitivity: consumers use to buy inexpensive wine rather than an unknown relatively more expensive wine that could be of poor quality. For that reason, the overall market is highly price-sensitive, but imported wines are focused on a niche market. Another important point, determining the purchasing decision, is that the consumers rely heavily on word of mouth and popular opinion. Typical is this statement made by a key industry player: "They just don't know what their looking for. Once a label is associated with quality, they will opt for it given the opportunity." This statement can explain for which reason domestics and French wine sales remain strong and recognizable. Once established, brand loyalty is likely: Chinese consumers need to feel like they are getting value from their purchase. We can imagine that the initial steps will be on developing an effective branding campaign and building brand image to consumers. Ways to introduce new products to market contacts include attendance at trade fairs, wine dinners, inviting people to visit Italy on educational wine tours, and working with specialist journalists to receive exposure. But remember that trade shows and trade missions are a good way to get feet wet before promoting wine dinners or wine culture education programs!

Only after an initial promotion, the consumer base is educated and convinced of the superiority of a wine's origin and quality are individual brands fully able to compete.

Another important key to a successful export strategy is establishing a long term commitment to building personal relationship, a process that starts with careful importer/distributor selection (a good distributor should be familiar with the procedures and requirement surrounding labelling and product approval).

Even though there are many challenges to face to, it would be hard to find a commodity with a more positive image in China than wine, which is associated with sophisticated western culture, the social elite and the good health.

5.2 Market and distribution channel

Our aim is to sell the selected products through wine bars, top restaurants and hotels to create at once a positive image, a new brand, convincing the consumers of the superiority of our wine's quality, that is also Made in Italy!

Concerning the market, we choose the South China, where consumers are more apt to try new products due to long exposure to Western culture. This connection makes consumers

more willing to pay a premium for high quality imported wines. Furthermore the distribution channel is widespread and fragmentary and, for this reason, is able to meet the requirements of a small- medium size company.

5.3 Marketing and promotion

Without authentic wine culture, domestic wine adopts the marketing method of traditional alcohol. Now, there are some wine promoters beside the wine shelf of all shopping malls and supermarkets in Guangzhou, which shows that domestic wine brands are in price competition. Most medium and small brand adopts this promotion method. However, Great Wall, Dynasty, Changyu carry out joint promotion with distinctive counters and free tasting.

As for imported wine, except Jointek Fine Wines franchised store, the rest majority carry out wine-tasty activities periodically within the club. With wine culture, this has been an activity in which white-collar people can communicate well and expand social relationship.

5.4 Advertising

All wine advertisements must observe the Advertising Laws of China. The advertiser of imported wine is required to provide the Certificate of Hygiene issued by the CIQ. Regulations also restrict the content of the advertisement.

5.5 Intellectual Property

Exporters should seek professional advice on the protection of intellectual property, such as registering brand names (both English and Chinese) and trademarks prior to engaging with a distributor in the market. It is not uncommon for companies, regardless of industry, to find that their brand or trademark has been registered by a third party without notification. Companies should also give consideration to website registration in English and Chinese, even if their current website does not include Chinese.

5.6 Promotion Activities:

- Organize Italian wine degustation in cooperation with Italy, preferably with Italian sommelier, – China Chamber of Commerce in one of best local western, preferably Italian restaurants, inviting member companies, local distributors, and foreign guests, etc. to establish the working relations.
- Organize Italian cuisine festival in cooperation with Chamber of Commerce as the main wine sponsors in which foreign consular officers, foreign chamber of commerce, high-ranking company executives, important clients such as main distributors.
- Organize wine degustation in cooperation with one of the major wine shop inviting their clients to taste wines with potential business relations.
- Visit main local wine shops to establish working relationship
- Sponsor the Italian national day celebration to establish presence and visibility
- Set up website in English & Chinese version including price list, wine list, etc.
- Physical presence: office renting & local employee plus a native manager

5.7 Overall Marketing Strategy

- To communicate the concept and the wine culture to our consumers, creating the perception of exclusiveness and Italian style
- To gather information about consumers' tastes and profile to improve our marketing mix.
- To arouse interest through effective promotional activities, such as trade shows, fairs, wine degustations...
- To educate the consumers, creating a proper section on the web-site in Chinese language
- To make our products available in wine-bars, top hotels and restaurants.

6. SWOT Analysis

6.1 Strengths

1. China's per capita GDP and population continue to grow as do disposable incomes.
2. Imported wine has a positive image as a high-quality, healthy alternative to domestically produced wines and is perceived as an excellent gift.
3. The Chinese government has been promoting wine over other higher alcohol-containing spirits for use in the official functions.
4. China's one-child policy has left a large demographic group of only children, with greater disposable incomes, receptive to individual, rather than traditional taste preferences.

6.2 Weaknesses

1. Import procedures for new brands and vintages are often lengthy and arbitrary. New items need up to four months to clear, so advance planning is crucial for trade shows and wine tastings.
2. Wine education is still in its infancy. Few consumers know the value of imported wines. Consumers judge quality by price
3. Long-term commitment and personal contacts (guanxi) are necessary to achieve success. France has had a "Country-based" marketing policy for over ten years.
4. Importers face a high import tax, making them less competitive with domestic wines.
5. Universally understood "wine-speak" does not exist and European descriptions do not work for Asian consumers, accustomed to different foods and flavors.

6.3 Opportunities

1. Second tier and third tier cities are a large and relatively untapped market.
2. Marketing in mid-to-high-end chain restaurants is a good way to develop brand awareness and mass-market sales.
3. Distributors and retailers are developing an on-line presence and increasingly offering on-line sales.
4. As knowledge of wine improves, more specialized stores offer a variety of high-end wines.

6.4 Threats

1. Many established and newly established competitors (France, Australia, Chile, Spain, USA) are actively penetrating the market and are eager to get the biggest market share.
2. The Chinese government is sure to enforce labeling requirements in the future.
3. Counterfeiting and Producer rights violations continue to be a problem in all industries. Counterfeit wines could lower sales and damage reputations for brands.
4. Improving quality of domestic wines make them more competitive domestically and abroad.
5. Country of origin of the wine is often taken as the guide in judging the quality of wine. This is not always accurate, as many poor quality wines can be produced by famous wine producing countries.

7. COMPETITORS' ANALYSIS

7.1 Imported wines

Three countries, France, Australia and Chile, control over 70 percent of the market for imported wines. Differing greatly in terms of entry time, products, and strategy, France, Australia, and Chile reach common ground on market dominance and strong promotional activities.

The French in particular have been doing well with exports to China and they dream of a huge future market among the emerging middle-class inside the world's fastest growing economy. Simultaneously, there has also been a significant growth of production and marketing of wines by Chinese-owned wineries. Therefore, a very interesting question arises as to how much of a growing market will be claimed by imported wines and how much will eventually be captured by Chinese-owned wine companies. Likewise, there is an interrelated question concerning how much of the global wine market will eventually be captured by the Chinese through their production and strategic exporting.

What is the likelihood of this future scenario?

In the current market situation when saturation has not been reached yet and in view of the geographic size of the target country, other Italian wine producers cannot be viewed as direct competitors. On the contrary, taking into consideration all the difficulties of shipment, distribution and promotion of wine in China and the paramount reliance of the consumer on the country of origin as the main criterion in the choice of wine, it is advisable, especially at the first steps of entering the market, to form alliances with other Italian wine producers from the same region or to choose distributors, already working with high-quality Italian wines. This strategy will help to promote the concepts of "Italian Wine" and "Made in Italy".

7.2 Domestic Production

China's grape production is immense, accounting for nearly 10 percent of the world's grapes: 6.4 million tons in 2008. China is ranked third in this regard, under Italy and France, respectively. Of the total grapes produced in China, approximately 80 percent are consumed as fresh table grapes, 10 percent are reserved for raisin production, and the rest for making wine and grape juice.

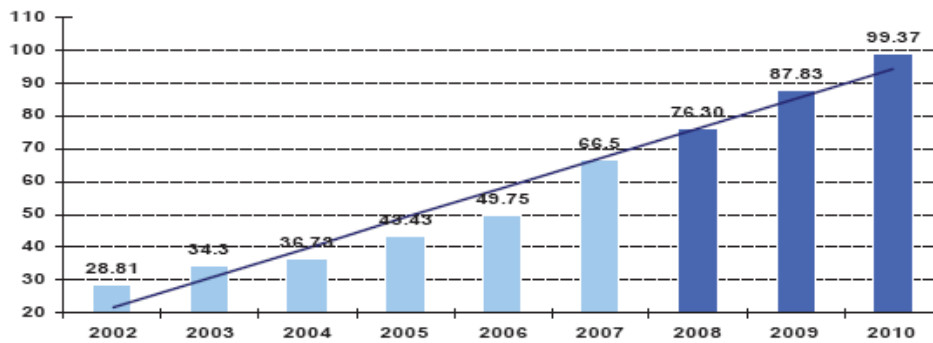


Figure 3 Wine production in China (10 kiloton).
 Notes: Based on data from Shao-Hua (2007), Euromonitor International (2007), Wine Institute (2007), and estimates 2008–2010.

Local production companies have well established distribution and marketing channels with widely recognized brands. Many domestic brands lack quality but are inexpensive. Local wines remain the highest contenders for market share, though they have been unsuccessful in capturing the perceived class and allure of foreign wine.

The top four domestic companies-COFCO, Changyu, Weilong, and Dynasty-control over 27 percent of the entire grape wine market in China.

8. PRICING

8.1 The process of listing imported wine at a given price

There are **three key factors** at work in determining the price of a bottle of an imported wine.

First, the combined **import duty, value-added tax and consumption tax** for imported wine works out at about **48 percent** of landed cost (for details see **Tariffes**). In other words, in order to get its RMB 100 wine into the country, the importer ends up plunking down RMB 148. That's **fairly high by world standards**, though some other Asian markets, such as India, Thailand and South Korea, have higher duties.

Second, there is the **importer's margin**. This may range from **30 percent to 60 percent** in China (acquiring accurate information from importers is difficult). This margin needs to **cover the company's overhead** and, to be sure, selling wine in China is expensive given the size of the country, relatively high distribution costs, and considerable effort required for wine education and promotion, among other things. Many importers bring in **relatively small volumes** of each wine. This makes it more expensive per unit and is another factor in determining price.

Third, there is the **margin of retailers or hotels and restaurants**. Some retailers, such as Carrefour and Wal-Mart, are famous for their low prices, but do pass on expenses such as promotional fees to importers, thus the price paid by the consumer for a particular wine may be higher in China than in other countries. Then there are **high-end hotels and restaurants**. They often use excessive markups on beverages, including wine, to help make

up for food revenue that usually barely covers costs. It's not unusual to find a markup on wine of between **250 percent to 350 percent**.

8.2 Pricing of Marramiero wines

For each product we estimated an average price (for the distributors and not for the final consumers).

Dama – **67.17 rmb (8 euro)**

Incanto – **92.38 rmb (11 euro)**

Inferi – **125.94 rmb (15 euro)**

DAMA MONTEPULCIANO	
EXW Price	€ 3,00
CIF Price	€ 3,27
Customs Duties	€ 0,46
VAT	€ 0,63
Consumption Tax	€ 0,37
Miscellaneous Expense	€ 0,30
Unit Cost	€ 5,03

INCANTO	
EXW Price	€ 4,50
CIF Price	€ 4,77
Customs Duties	€ 0,46
VAT	€ 0,63
Consumption Tax	€ 0,37
Miscellaneous Expense	€ 0,30
Unit Cost	€ 6,53

INFERI	
EXW Price	€ 6,00
CIF Price	€ 6,27
Customs Duties	€ 0,46
VAT	€ 0,63
Consumption Tax	€ 0,37
Miscellaneous Expense	€ 0,30
Unit Cost	€ 8,03

Please note that EXW prices given here are not the actual Marramiero price-list figures: we use them only as an example.

9. MANAGEMENT TEAM

Our management team will be composed of an Italian general manager, who will be in charge of all daily operations, plus a local staff who will be working as an assistant to the general manager. Due to the concern of high cost of sending over Italian manager to be posted in China, as an alternative, it is also a good solution to hire a local well-experienced

manager with good knowledge of international traded-related matters and Italian & English proficiency.

10. DEVELOPMENT PLAN, OPERATIONS TIMETABLE AND ILESTONES

We are going to set up a wholly-owned foreign enterprise in order to work with the major distributors. There are two principal ways of organizing export activities of this kind – one is having a large stock of a wide range of wines, which could be offered to the clients. The advantage of this approach is that times of executing the orders are reduced which always keeps the customers happy. The downside of this scheme is the necessity to spend resources on renting large and specifically-equipped storage space and the risk of making a mistake about which wines are going to be more on demand. Our project would be order-based, constantly keeping in stock only a limited number of sample bottles for representative and promotional purposes and actually shipping only the required amounts. In this way we are going to eliminate storage costs and risks of keeping the unrequired stock. In order to carry out such activity we are going to need only one office in the capital – Guangzhou of about 25 m2 in the central area. The overall plan of activities covers a period of 6 months.

See the Overall plan of activities in attachment.

In total, the governmental cost should be RMB 1040+0.08% of amount of registered capital.

11. FUNDING PLAN AND FINANCIAL ANALYSIS

Notes for Financial Statement

1. We have selected a complete solar year starting from 2011 to make this business plan more easily understandable.
2. Based on the average price range and aimed to strengthen our competitiveness to penetrate into this emerging market, we have decided to establish our pricing strategy from the mid-lower level following the 3-Euro average as our main product for marketing.
3. Given the great market potentials around Guangzhou city area while aiming to serve the main surrounding cities, we have set 40,000 bottles per year as the starting sales target with an annual increase of 25%.
4. We have chosen a slight price hike of 7% in Euro per annum based on the previous year taking into account its continuous depreciation trend against USD to which the Chinese currency RMB is pegged.
5. As per the aforesaid criteria, we shall become profitable in the second business year and achieve the target of being overall net profitable in the third business year taking into account the loss carryforward offset of the previous two periods.
6. As per the first year sales projection, the breakeven point shall be realized achieving the threshold 46,660 bottles, which shall be realized in 2012 Q1 regardless the annual 7% price hike.
7. It is important to point out that the start-up investment of 15,000 Euro in a once-off

item which accounts for a significant part of the fixed cost to get the business running. While the remuneration of the Italian Chief Representative is also a variable factor subject to substitution by highly competent local representative thus reducing considerably the GSA expense, which, in its turn, shall further contribute a higher profitability for this business. For instance, an annual remuneration near to 20,000 Euro for local chief representative is normally regarded to be decently recognizable annual income.

8. As for paid-in capital, it is subject to local government to set out the specific minimum paid-in capital requirement. Generally speaking, 1 million of RMB, roughly equal to 120,000 Euro as per the ongoing exchange rate, is the minimum requirement for wholly foreign owned enterprise. So we have chosen the 150,000 Euro in order to avoid expected RMB appreciation or the eventual depreciation of Euro against USD.

See Projected Balance Sheet and Projected Income Statement in attachment.

12. CONCLUSION

In our Business Plan we have identified a big, unsaturated and quickly growing market for wine, namely – for the Italian wine of the Marramiero company. It can be noted that this market has many variables and differences do exist among the quality, taste and making processes of the consumed wines. This can be seen in the marketing variables which are the basis for differentiation in the approach to the market. Of all the economically boosting provinces we chose Guandong as the most attractive for it's quick development and bigger exposure to the western culture. As our main focus is on the effective marketing program which brings together all of the elements of the marketing mix to achieve the organization's marketing objectives by creating wine culture and delivering to customers what they will want and need – high quality Italian wine as part of the Italian culture.

We have identified a vision for enhancement in quality wine consumption and the growth in wine drinking culture and tried to identify the direction leading to the profits which are surely to be derived here, not forgetting to indicate the possible difficulties which exist and could be overcome with care and attentive, detailed planning and paramount attention to all the local rules and regulations. We believe that promoting Marramiero wine in China we are also paving the way for a bigger flow of the Italian wines which is inevitable in the nearest future and the the moment is ripe to launch Italian “wine mission” in China.