



CHINA WINE MARKET LANDSCAPE REPORT

WINE CONSUMPTION BEHAVIOUR IN CHINA



January 2013



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Introduction to the Chinese wine market



Finance professionals are taught very early in their careers that the market price of a security is the equilibrium point between all the pessimists and all the optimists in a given market. If pessimism flourishes, the price will fall, and vice versa. Sometimes optimism and pessimism remain more or less balanced for years – say, in the case of the electricity utility's share price. Other stocks zoom up and down as fear and greed fight it out on a daily basis.

If we transform the stock market analogy to wine, the Chinese wine market would play the part of the rollercoaster stock, while a market like Germany would exhibit more utility characteristics. Much is known about Germany's wine market and its consumer behaviour; relatively little is known about China, and the knowledge that does exist quickly falls out of date.

China excites the wine industry for a reason. It's already the fifth biggest market for wine on the planet, with a compound annual growth rate of around 25%. There are 19 million upper middle class drinkers of imported wine in China, and that middle class is growing. The currency situation is favourable for imports.

And Chinese drinkers are engaging with wine with an enthusiasm rarely glimpsed in many more mature markets, as urban China – particularly the younger, mobile internet generation – embraces Western consumer habits.



Introduction to the Chinese wine market (cont.)



They're an adventurous lot. According to our Vinitrac® consumer data, almost three-quarters of wine drinkers in China enjoy trying new and different styles of wine. About the same proportion say they have a “strong interest” in the subject and that wine is an important part of their lifestyles. And perhaps most strikingly of all, 54% of the consumers we questioned – a representative cross-section of the wine-drinking community as a whole – consider themselves “experts on grape-based wine”. It would be unthinkable to record the same findings in Western countries, where wine drinking is far more established.

Wine Intelligence has now segmented Chinese wine drinkers into six Portrait groups, giving new insights into the way the market now fits together.

We have the Adventurous Connoisseurs: confident, high-earning consumers; the Prestige-seeking Traditionalists, who also spend big, but usually in a business context, and on very often on cru classé.

Social Newbies are younger consumers, who drink with friends or at work functions; Casual-at-Homers, meanwhile, tend to buy mainstream-priced wines to enjoy for relaxation. They also believe it promotes well being, something which is particularly true of Health Sippers, though this group has a narrower repertoire and is particularly price-conscious.



Introduction to the Chinese wine market (cont.)



Lastly, we have the Frugal Occasionals: low-engaged, infrequent drinkers who drink wine for specific occasions and base their purchases mainly on price.

We expect to see the Internet looming ever larger in the Chinese wine market in the coming years. Already more than a quarter of Chinese wine consumers buy wine online, and the explosion in tablet use – and more accessible mobile internet – will make purchasing wine easier than ever. Two of the top five retailers used by wine drinkers in China – Yesmywine and Tmall – are purely internet based.

But wine exporters who look at the Chinese wine market and see only dollar signs are deluding themselves. This is not an easy market to conquer, and brand owners who think the job is simply about parachuting in successful Western brands are in for an unpleasant surprise.

The experience of huge corporations like Kraft and Volkswagen demonstrate that it pays to spend some time understanding Chinese consumers – their tastes, cultural values and knowledge – and how they differ from consumers in more mature markets.

Wine certainly has some issues it needs to address. It still hasn't made a breakthrough into the mainstream, and usage tends to be ritualistic and based around China's spring and autumn festivals. Many consumers aren't really sure how to drink wine, and they don't always get much help from suppliers. In our research, more than a third say there isn't enough information on back labels. Almost one in four say it's difficult to know what any given wine will taste like. There are also major concerns – and sadly, they are justified – that the wine they are buying may be a fake.



Introduction to the Chinese wine market (cont.)



These are challenges that exporters to China need to look at very carefully, along with the more familiar concerns surrounding regulatory issues, import technicalities and getting to grips with the business culture. There are economic issues to factor in, too. The Chinese economic miracle mesmerises global business leaders, but the growth trajectory must dip at some point – especially as demand dips for Chinese products in the recession-blighted West.

There are going to be some scary ups and downs as the next 10 years unfold, and winners as well as losers in the wine trade. But as China's so-called Tier 2 cities get the taste for wine, the country continues to represent an opportunity for exporters as exciting as it is unparalleled.

Rui Su
Research Manager
Wine Intelligence

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- Measures from the IWSR correspond to actual wine consumption figures. This means sales into the trade (on + off premise)
- The IWSR visits each market each year. Discussions are held with key local experts in the market including importers, producers, grey market operators, duty free operators, and supermarket/hypermarket buyers.
- All volume data is given in thousand 9 Litre Cases
- In the breakdown by country of origin, IWSR includes (depending on the market and the size of the category) the following two categories: 'Other' and 'International'
They are defined as followed:
 - 'Other': category including wine blends (normally in bulk or bottled without specified country of origin) and wines from other countries with volumes too small to break out separately
 - 'International': Category including wine brands that have wines from various countries
- The IWSR includes the following types of wine in its definition of 'wine':

Definitions

WINE =

Still light wine +

Sparkling (Champagne & other) +

Fortified +

Light apperitifs (vermouth...) +

Other (rice wines...)

} Sub-categories

- Interviews were conducted September-October 2012 with 10 members of the wine trade in China who work across various sectors
- Interviews were carried out face to face or by phone, and lasted 30-60 minutes
- Interviews covered the following topics:
 - Key trends, success factors and barriers
 - Expectation regarding wine category development in next 10 years
 - Opportunities for imported wines in China

Category	Position
Local wine shop	Manager
National retailer	General Manager
Regional importer / distributor	General Manager
Regional importer / distributor	General Manager
Wine consultant	General Manager
Local winemaker and educator	Lecturer and Chief Winemaker
Marketing director, member of local wine association committee	Project Market Director; Member of Grape Wine Committee of Regional Wine Association
Regional importer / distributor	Founder
National importer / distributor	Wine trainer and marketing assistant
Regional importer / distributor	General Manager



Quantitative consumer data referenced in this report was collected through Vinitrac® China

- Vinitrac® data for this study was collected in October 2012
- Data was gathered via Wine Intelligence's Vinitrac® online survey of 1,000 Chinese imported wine drinkers, meeting the following requirement:
 - Upper middle class (personal income of at least 4,000 RMB per month)
 - 18-49 years old
 - Resident of Beijing, Guangzhou, Shanghai, Wuhan, Shenyang, Chengdu
 - Drink imported grape-based wine at least twice a year
- Invalid respondents (those who sped through the survey or gave inconsistent answers to selected questions) were removed before analysis
- The survey was quota-based and post-weighted to be representative of Chinese upper middle class imported wine drinkers in terms of age, gender and geography



SAMPLE SIZES

At least 500 respondents per survey; 1,000 in most countries, 2,000 in US
Regular adult wine drinkers (where 'regular' = drinks wine at least once per month)

Each Vinitrac® survey starts with questions to screen respondents:

- Adult drinking age within each country
- Permanent resident of the country being surveyed
- Drinks wine at least once per month
- Drinks at least red, white or rosé wine
- Buys wine in the off-premise and/or in the on-premise channels

... and rejects all respondents who do not fulfil these Vinitrac® criteria



Each sample is representative of the 'regular' wine drinking population in that market and is therefore valid; a sample size of at least 500 consumers ensures results are reliable. It's like a 'smaller' version of the wine drinking population at large

WHY IS VINITRAC® NOT A PANEL?

- Panels are good for monitoring detailed purchase activity but require regular input from exactly the same complete group of respondents
- This requires more time from respondents, for which they are paid, and panels are therefore more heavily skewed towards home-based consumers, e.g. students and home-makers
- This group of a country's wine-drinking population does not fully represent the accurate weighted sample of adult regular wine drinkers on which Vinitrac® insights are based

HOW DOES VINITRAC® WORK?

- Invitations to participate in Vinitrac® are distributed to adult consumers in each market
- Consumers interested in a wine survey are directed to an URL address, which welcomes them to the online survey
- Wine Intelligence monitors incoming completed responses to build a sample representative of the wine drinking population of the target market
- When a representative sample of at least 1,000 (US: 2,000) is logged, the survey is closed



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