

This study was conducted as a collaboration between Adhesion Group and Wine Intelligence

Who will be the winners in China's "Wine Market 2.0"?

Opportunities for Mediterranean wines in the Chinese market

Introduction and executive summary

What will Chinese wine consumers drink next? Bordeaux was the flavour of 2010-11, and held sway in China for many years before that. But today Chinese consumer tastes are evolving, thanks to the influx of new wines, greater exposure in the consumer media, rising disposable income, and the growing sense that wine should be part of a Chinese consumer's lifestyle.

If the pundits are correct, 2012 will see Chinese wine lovers pursuing the prestige end of Burgundy, Australia and California, and perhaps more auction room records will fall. Yet while the latest "must have" prestige wine may grab headlines and boost auction prices, it is just one symptom of broader, more fundamental changes that are happening in the world's fastest growing imported wine market.

This White Paper evaluates some of the evidence about what trends might become apparent in the coming years, and focuses on one opportunity in particular: the wines from the Mediterranean regions of France.

Wine Intelligence is aligned with most observers in believing that the coming years will see a rapid and exciting diversification in the wine market in China, as consumer tastes mature and the local supply chain evolves to meet demand. The main points of debate revolve around which styles, source countries and regions will end up in the winners' circle ... and which will be the also-rans.

There are plenty of theories out there about "the next big thing" in Chinese wine, some more based on speculation (and hope) than others. What most people agree on is that French wines led the field when China's imported wine market was in its first phase, with prestige wines - principally from Bordeaux - dominating both the shelves and the discourse about wine among affluent and aspirational professionals living in Tier 1 cities such as Shanghai, Beijing and Guangzhou.

For a while, this definition suited both suppliers and consumers just fine: expensive Bordeaux was a recognisable and accepted symbol, equally at home in a business context or at a celebration. It was relatively easy to supply a limited number of high-profile outlets, and profit margins were excellent. The perceived exclusivity and eye-watering prices actually helped purchasers feel better about their decision, given the face-enhancing characteristics such a purchase would bring to any event.

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However it's clear from recent evidence collected by Wine Intelligence, among others, that China is moving on to the next phase in its development, and the spotlight is reaching beyond the rarefied world of the First Growth Bordeaux. What will this "Wine Market 2.0" look like? Without doubt it will be a more complicated, and possibly confused, place to do business compared to the Version 1.0 that we have observed so far. And rather than there being one big winner, our sense is that Market 2.0 will be characterised by more diversity, and the beginnings of occasion-based and segmental patterns of behaviour that we observe in more mature markets such as the UK and the USA.

If we accept the hypothesis that China's wine market will go in several directions, can we predict what these directions will be? From our perspective, there are four main trends that we believe will emerge in China over the coming five to 10 years:

1. **Beyond Bordeaux:** wines from other French regions that ride on the strongly positive perception associated with wines from France have a chance to thrive. The recent surge in interest in Burgundy is one example of this already happening; we believe the trend will push further, probably staying with well known regions in the short term, encompassing the wines of the Rhône, Languedoc and Provence.
2. **New Icons:** The Chinese are proving to be astute identifiers of attributes that distinguish a brand as being particularly special or desirable - in short, brands with "class". The search for these brands is already extending beyond Bordeaux to other parts of France; in Wine Market 2.0 this search will broaden dramatically, encompassing the high quality offerings of both the New World (principally Australia and Chile) and to a certain extent the Old World (principally Italy and Spain).
3. **Everyday Sweet:** As wine becomes a bigger part of mainstream life - which is to say it is consumed for pleasure rather than for show - and the ability to buy it on a regular basis trickles down from the elites to the middle classes, the characteristics of the product will start to reflect the dominant tastes of the population. We predict that more successful mainstream products, most likely emanating from New World wine producers, will have higher residual sugar levels, significantly lower tannins than are typically present in traditional Bordeaux reds, and will have almost certainly been designed specifically with the Chinese market in mind. There may also be more of a role for rosé and white wines, though these will still make up a much smaller fraction of the market compared to red wines.
4. **Sparkling:** The most interesting trend to watch, which perhaps will herald China's move into "Wine Market 3.0", is in the sparkling wine category. In a market where family celebrations, prestige and face are so important, sparkling appears to have a ready-made niche. However it will take time for the Chinese consumer to migrate to the idea that wine can be white and sparkling as opposed to red and still.

For the purposes of this paper, we will be concentrating on the first trend, and exploring the prospects for Languedoc, Côtes du Rhône, and Provence wines. We have selected these three in part because they have high levels of visibility in China (consumer, or trade, or both), but also because each is backed by a large, well-funded and ambitious Interprofession (trade association), which can marshal collective action and larger budgets than an individual winery could achieve.

This White Paper will develop the following hypotheses:

- There is an opportunity for wines from the Mediterranean region of France, building on some successful awareness-building and the opportunities presented by Wine Market 2.0
- There will be certain consumer segments, channels and price points where this opportunity might be more compelling
- The notion of collective marketing as “Mediterranean wines” may have some traction in future, though this approach is probably not advisable in the short term as its disadvantages currently outweigh any advantages
- These regions need to begin the groundwork now to position their growers’ products for success in Wine Market 2.0.

1. Market background

China is an emerging, but rapidly developing wine market - with approximately 19 million urban upper-middle class imported wine drinkers.



1. National Bureau of Statistics of China, 2011 China census

2. Wine Intelligence Calibration survey 2011 conducted in Beijing, Shanghai, Guangzhou, Chengdu, Shenyang, Wuhan

(Source: Wine Intelligence China Vinitrac® online survey, Nov. 2011)

Country of origin (primarily France) and price remain the dominant choice cues in the Chinese market. The overwhelming majority of imported wine drinkers in China are aware of France as a wine producing country. This is particularly true for older drinkers - 97% of those between 40 and 50 years old have heard of France as a source country for wine. Italy, Australia, Spain and Chile form a secondary tier in the minds of consumers, all being known by at least half of Chinese imported wine drinkers.

Favourite source country



% who chose country as their favourite grape-based wine producer
Base: All sample (n=1,001)

1 France	58%
2 China	11%
3 Chile	9%
4 Australia	5%
5 Italy	4%
6 California	2%
7 Portugal	2%
8 New Zealand	2%
9 Spain	1%
10 Argentina	1%
11 Germany	1%
12 Other USA (e.g. another state in USA)	1%
13 South Africa	1%
My favourite wine-producing place is not listed	1%
I don't have a favourite wine-producing place	2%

Source: Wine Intelligence Vinitrac® China Nov' 11, n=1,101
Chinese upper middle class imported wine drinkers

Country awareness



% who are aware of that the country makes grape-based wine
Base: All sample (n=1,001)

1 France	94%
2 China	88%
3 Italy	65%
4 Australia	63%
5 Spain	51%
6 Chile	50%
7 New Zealand	45%
8 Portugal	45%
9 Germany	45%
10 Argentina	40%
11 Other USA (e.g. another state in USA)	38%
12 California	36%
13 South Africa	31%

Source: Wine Intelligence Vinitrac® China Nov' 11, n=1,101
Chinese upper middle class imported wine drinkers

France is also the favourite source country, with domestic Chinese wines a distant second, followed by Chile. Chile is particularly favoured by older, more affluent drinkers (those over 40 and earning more than 10,000 RMB). More experienced consumers have stronger views on region of origin, and are actively seeking to understand new regions within favoured source countries (e.g. France).

The Chinese wine trade is also detecting that more experienced consumers are looking to explore other new countries and regions. According to one national distributor: "Private and corporate clients are starting to learn more about a wider range of countries and grapes; you see much more diversity and these clients are interested more in quality and not afraid of asking for different things." (Source: Wine Intelligence China trade interview programme, November 2011.)

Recognising a region is the second most important choice cue for imported wine drinkers in China (it's a major influence for 83% of consumers, compared to the 88% who cite country of origin). In fact regions are just as important a consideration as a recommendation from friends or family when it comes to choosing wine. (Source: Wine Intelligence China Landscapes Report 2011.)

Wines at non-premium price points are a growing market opportunity as consumers become increasingly willing to explore the wine category for their own social pleasure, as opposed to buying wine to meet business or social obligations. As consumer wine knowledge increases, the imported wine market is no longer dominated by highly priced, often unaffordable, wines.

“ Customers now asking for mid-range wines, or premium rather than merely super-premium wines ”

Most trade respondents report that they are now listing wines at various price points to satisfy different client (distributor) demands. As one national distributor puts it: “Customers now asking for mid-range wines, or premium rather than merely super-premium wines.” The same respondent also refers to “increased movement of wine from Chinese white-collar consumers looking to buy around 300 RMB per bottle or in a 300-1,000 RMB price range ... as well as wines from lesser known countries”. (Source: Wine Intelligence China trade interview programme, November 2011.)

Likelihood to buy

% who would be likely or very likely to buy wine from the following places if the price was right

Base: All sample (n=1,001)



1 France	97%
2 Provence	90%
3 Italy	89%
4 California	87%
5 Spain	87%
6 Australia	87%

Source: Wine Intelligence Vinitrac® China Nov' 11, n=1,101 Chinese upper middle class imported wine drinkers

2. Opportunities for Southern French wines in China

Provence, Côtes du Rhône and Burgundy are the Mediterranean regions with the highest awareness levels amongst consumers:

Region awareness

% who are aware of the region for making grape-based wine

Base: All sample (n=1,001)



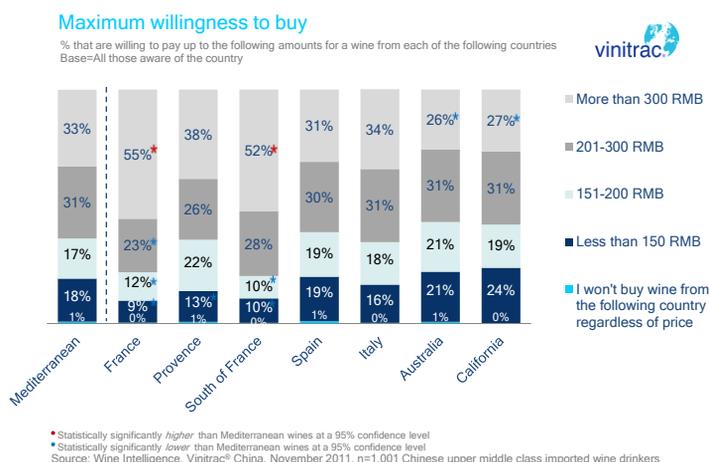
1 Bordeaux	69%	14 Languedoc	27%
2 Provence	54%	15 Ribera del Duero	27%
3 Côtes du Rhône	42%	16 Tuscany	22%
4 Bourgogne	38%	17 Chablis	21%
5 Sicily	38%	18 Puglia	21%
6 Alsace	30%	19 Andalucía	21%
7 Corsica	29%	20 St Emilion	20%
8 Barossa Valley	29%	21 Rioja	18%
9 Catalunya	29%	22 Châteauneuf-duPape	17%
10 Napa Valley	28%	23 Vin de Pays d'Oc	17%
11 Valencia	27%	24 Beaujolais	17%
12 Médoc	27%	25 Chianti	15%
13 Loire	27%	26 Roussillon	13%
		None of these	1%

Source: Wine Intelligence Vinitrac® China Nov' 11, n=1,101 Chinese upper middle class imported wine drinkers

If we focus just on the more affluent wine drinkers, we find they recognise the names of a greater number of regions, particularly C tes du Rh ne: 50% of drinkers earning 10,000 RMB a month or more are aware of this region.

More puzzling is the claim from 54% of consumers that they are currently buying wine from Provence. The sales volumes do not reflect this high level of penetration, suggesting that some other factor might be influencing. Our hypothesis is that Chinese consumers are connecting with Provence in other ways. The region has strong associations with holidays and the countryside, which are reinforced through cinema and television lifestyle programming.

Ninety per cent of consumers say they would buy Provence in the future (if the price was right).



Other southern French regions do not have the same awareness levels as Provence, but are highly regarded within the Chinese wine trade, partly due to their export promotion efforts over the past year. Trade understanding of the South of France embraces Languedoc in particular and Provence and C tes du Rh ne to a lesser extent.

The fundamental attractions of a “Mediterranean” wine in China appear to boil down to three key factors:

1. The combination of a protected designation of origin (PDO) and in general much lower cost prices make the wines from Languedoc, Provence and C tes du Rh ne an easier “sell” in the distribution chain
2. There is a perception among some trade respondents that some wines from these regions have good food matching potential with Chinese cuisine - perhaps better than that of Bordeaux
3. The connection with tourism, a relaxed lifestyle, and the perception of healthy living in these areas is seen as a big advantage compared with either Bordeaux or Burgundy.

3. Key perceptions evoked by the term “Mediterranean wines” for consumers and trade in China

“ For a majority of Chinese consumers who drink imported wines, the term “Mediterranean wines” connects with France rather than any other country ”

One of the main questions facing brand owners and regional promotion bodies in marketing wines from Southern France in China is the extent to which they should leverage the notion of “Mediterranean wines” in their marketing strategies.

In the previous section we outlined the connection between these regions and tourism, which in the case of Provence is particularly strong. This also represents a point of difference between these regions and the more established areas of Bordeaux and Burgundy, which do not have such strong tourism associations. However there are potential pitfalls in this approach, as the collective term “Mediterranean wines” may reduce the distinctiveness and appeal of the individual wine regions.

For a majority of Chinese consumers who drink imported wines, the term “Mediterranean wines” connects with France rather than any other country. Fifty-three per cent of consumers surveyed by Wine Intelligence associated the term with France. One in five associated the term with Italian wines, and one in nine with Spain.

Further analysis of the data suggested that the most popular associations of Mediterranean wines were with Provence, but also (erroneously) Bordeaux, with some respondents opting for quite a generic view (“France” or “Italy”). This suggests that while “Mediterranean wine” and “France” seem to go together, and possibly “Provence” as well, the connection is not a particularly strong one.

Top 10 associations with wine from the Mediterranean

Size of word = frequency of answer given

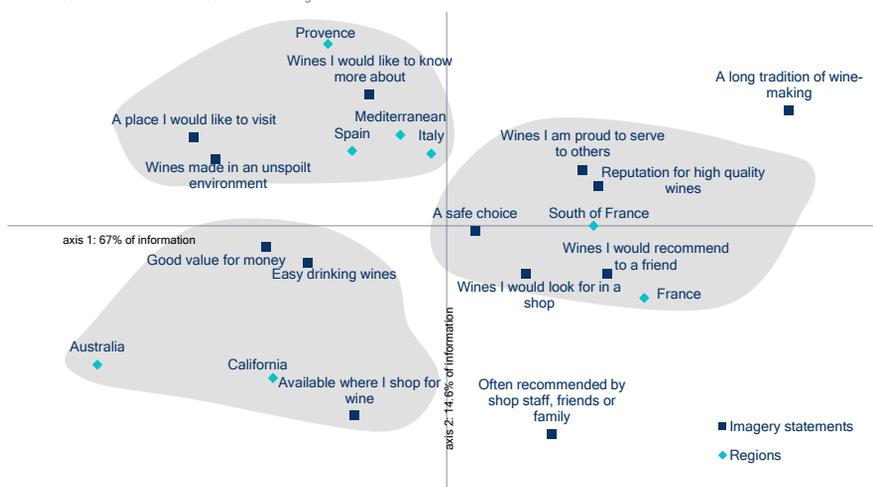


Source: Wine Intelligence Vinitrac® China Nov' 11,
n=1,101 Chinese urban regular imported wine drinkers

When we investigated further, through the use of an imagery association question (see mapping plot below) it became clear that “Mediterranean” was not a word that was strongly linked to wine. Instead - and perhaps not surprisingly - it was much more strongly linked to the idea of tourism. While the notion of wine appeared to sit comfortably with this other concept, consumers tended to associate their preferred styles of wine with either “France”, “South of France” or indeed other countries such as Australia and California.

Imagery mapping

Correspondence analysis of country imagery statements
Base=All those aware of at least one of the regions included



Source: Wine Source: Wine Intelligence, Vinitrac® China, November 2011, n=1,001 Chinese upper middle class imported wine drinkers

Perhaps the most telling insight came when we asked consumers to say how much money they would be prepared to spend on wine. Some 64% of consumers said they would be prepared to pay over 200 RMB on “Mediterranean wine”, which put the term on the same value-association level as “Provence” and “Italy”. However it was still perceived as considerably lower value compared with wine that was labelled simply as “French”.

Meanwhile the wine trade in China associates wines from the Mediterranean with a broader range of countries: typically Italy and Spain dominate perceptions rather than just France. When France is mentioned, it tends to be in relation to the South of France. According to one Beijing-based national importer: “‘Mediterranean’ to me means Italian, Greek, Spanish ... I’m sure some people might say France, but I don’t immediately think of France as Mediterranean.” (Source: Wine Intelligence China trade interview programme, November 2011.)

The trade also recognises a range of prices of wines in the Mediterranean category. Yet the dominant view is that these wines are best suited for the entry-level and mid-level imported wine range, alongside wines from Chile and California. Viewed through this lens, the trade expectation of wines from these regions is for approachable and uncomplicated products, which deliver principally on the first factor outlined in the previous section: the prestige of a PDO wine at lower prices compared with Bordeaux/Burgundy.

In summary, the trade view is that the Chinese wine market is not yet ready for an umbrella term such as “Mediterranean wines”, nor is it currently necessary. The key feedback from trade respondents is that most of the supply chain, and the end consumer, are still trying to grasp a basic understanding of wine. For them, it is worth understanding the difference between Old World and New World wine styles, as these can deliver distinctly different experiences. There is also a fundamental question why any marketing platform would abandon the “France” country brand in the wine category, given its dominance in consumer mind space and the positive associations it engenders.

However there is a feeling among the trade that as “Wine Market 2.0” begins to materialise, there will be a need to push consumers towards wines from French regions outside the Bordeaux/Burgundy axis because of their attractive value-for-money proposition within the “easy sell” of France. When this happens, there may be an imperative to develop some kind of collective marketing platform for these wines. For most trade respondents, the strong performance at the sub RMB 200 retail price level of these wines is the most attractive element, along with the fact that they tend to be distinctly different from an Australian Shiraz or Californian Cabernet in the same price range. “More and more people start buying wines from these regions because their cost performance is high and [they are] suitable to be drunk young ... very suitable for entry-level wine lovers,” in the words of one Shanghai-based sommelier.

In the longer term, the wine trade supports the idea that South of France wine can develop a marketing platform around food matching, as it has a diverse range of styles and flavours which may better align with the complex regional cuisines in China. It is also recognised that there is a lot of potential in the connection between the Mediterranean regions of France and the positive lifestyle and tourism associations, and above all with the perceived health benefits of the Mediterranean lifestyle. This last point resonates strongly in a country obsessed with health and the connection between what you eat and your wellbeing.

4. Conclusions: steps for supporting success for Mediterranean wines in China

This White Paper has outlined the opportunities for wines from the Mediterranean region of France, one of the four key trends that we believe will drive imported wine volumes in China’s Wine Market 2.0. It is clear that a large and interesting opportunity is opening up for wines from Provence, the Languedoc and Côtes du Rhône, driven by the democratisation of the category, the need for quality French products at mainstream price points, and the positive associations between these regions and a desirable lifestyle.

In the short run, the catch-all term “Mediterranean wines” does not do its constituent regions justice, nor does it leverage some of the main advantages that naturally accrue to French wines in the Chinese market. A large advertising campaign based on this notion would run the risk of confusing consumers and not achieving sufficient return on investment.

The advice from the Chinese wine trade is to direct marketing investment into developing a good market understanding. For many trade respondents, a prerequisite for this is to have an embedded presence in market, in the form of a local agency or office. The in-market team could be charged with developing insights, identifying opportunities, and overseeing a sensible allocation of budget to take advantage of the opportunities presented by Wine Market 2.0 as they arise. “First and foremost, you would need to get a team - or at least someone - to be based in China, to be really working here, like Sopexa and Wines of Australia,” says one national distributor/retailer based in the north of China. (Source: Wine Intelligence China trade interview programme, November 2011.)

The other specific advice from the trade is to escape the “congestion” of trying to run marketing campaigns in the Tier 1 cities of Beijing and Shanghai. “I would not focus on the main cities like Beijing or Shanghai ... you’re going to get lost!” warns one respondent. “There’s lot of competition, and how do you differentiate yourself? You might want to focus, say, on Hangzhou or other second and third tier cities. Do this in two or three cities, find two or three good partners and go from there and introduce the ‘lifestyle programme’ kind of thing at the same time.” (Source: Wine Intelligence China trade interview programme, November 2011.)

In summary, the prognosis for wines from the French Mediterranean regions is very positive. Opportunities will open up for well-prepared brand owners who are effectively supported by their regional promotion apparatus. The main challenge remains how to communicate the offer effectively, and how to leverage France’s positive image in the Chinese wine market while still maintaining differentiation from Bordeaux and Burgundy.

Methodology 1: Consumer online survey

Vinitrac® China November 2011 – the Wine Intelligence online wine drinker survey – was used to capture the views of 1,101 consumers representative of the 18.9 million regular urban upper-middle class imported wine drinkers in China

- Questions covered:
 - Region and country awareness, purchase and overall favourite – including Mediterranean wines
 - Likelihood to buy and price perceptions for France, the South of France, Provence, Italy, Spain, Australia, California and the Mediterranean
 - Perceptions of the 8 aforementioned wine producing areas “Mediterranean wines” concept

Methodology 2: Trade interviews

A programme of 30 minute - 1 hour individual interviews was conducted with wine over 20 industry professionals in China in November 2011.

- Questions covered:
 - Market context and trends
 - Awareness of Mediterranean wines
 - Perceptions and associations with Mediterranean wines
 - Opinions on the potential effectiveness of the term “Mediterranean wines”: positives / negatives

Methodology 3: Existing market data

- Secondary sources were used for market context based on Wine Intelligence China market research reports released in 2011:
 - China Market Landscapes report 2011
 - Doing business in China 2011
 - China Internet and Social Media 2011

Please contact natasha@wineintelligence.com for further details on methodologies use in this research



About Wine Intelligence

Wine Intelligence is the leading research-led strategy consultancy serving the global wine industry. It conducts client-specific research projects to enable companies to gain greater insights into wine markets and wine consumers, and helps business leaders develop business strategy and marketing plans. The company also assists businesses in developing new brands, and in formulating and communicating marketing messages within the industry. For more information, please visit www.wineintelligence.com

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Jean-Philippe brings a wealth of expertise in wine industry analysis. He holds a PhD in wine marketing from the Agronomic Engineer School of Montpellier where he was a lecturer in wine marketing and accountancy for five years before joining Wine Intelligence. He specialises in conjoint analysis methodologies, which can be used to forecast market shares and to evaluate brand price sensitivity. He has published several academic papers on the use of such methodology in investigating wine consumer behaviour, notably at the French Marketing Association conferences and at the Wine Marketing Symposium in Sonoma. Jean-Philippe developed his passion for wine spending time in Corbières, where his family make wine.

Richard Halstead, Chief Operating Officer



Richard is co-founder and Chief Operating Officer of Wine Intelligence, and leads the company's corporate strategy practice. A former financial journalist, Richard entered the world of wine when, as a newly-graduated MBA, he was appointed the first Business Development Manager of Virgin Wines shortly after its launch. A graduate of Brown University, Richard holds an Advanced Certificate in Market & Social Research Practice from the Market Research Society and an MBA with distinction from London Business School. Richard's recent projects include: helping the generic body for a major Spanish wine region set its export strategy; setting up and running a strategy planning day for one of the world's biggest wine producers; and working with a major UK supermarket in the redesign of its wine aisle.

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Natasha is a project manager at Wine Intelligence. She joined the company in 2009 after graduating from the University of Bristol with a BA Hons in French and Spanish. She also holds an Advanced Certificate in Market & Social Research Practice from the Market Research Society. Natasha has gained broad range of international experience from the management of a variety of research and strategy projects. She specialises in ensuring the smooth delivery of, evidence-based action plans to clients, business communications and successful events including presenting conference seminars at London International Wine Fair and organising Fine Wine 2010.

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