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Global Agricultural Information Network

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Report Highlights:

Wine imports are booming across China, including the fast-growing North China market, but the U.S. remains under represented. The market has great potential, but awareness of U.S. wines is low, and exporters must approach the market with a solid strategy in mind. Note that this report is a supplement to ATO Shanghai's China Wine Market report.

General Information:

Boom Times

China is one of the fastest growing export destinations for wine, importing nearly \$800 million in 2010 at a growth rate of almost 75% over 2009. North China is one of the key regional markets. Centered around Beijing, it is home to a number of fast-growing major cities, and a population larger than the entire United States. Wine consumption in this region is booming, as wine becomes increasingly favored over traditional distilled drinks. Wine consumption is also becoming widely regarded as a sign of sophistication among China's extremely status-conscious business elite. This particular market segment, the high-profile business elite, is driving both high-end wine sales and interest in wine knowledge more generally.

However, despite a 71% increase in the value of U.S. wine exports to China in 2010, the U.S. holds a market share of less than 4.7% in 2010, down from 5.6% in 2009 (even though total US wine exports jumped by 71% in value, according to Customs data). France and Australia have gained market share, and are the dominant players in the Chinese market, with 46% and 19% market shares, respectively. Both countries have strong promotional campaigns in China, backed by unified industry organizations. The U.S. suffers just as badly on retail shelf space, where Australia, thanks to aggressive promotion by its industry, is almost on par France, and where Chile and Argentina routinely command as much or more shelf space than the U.S.

The Need for Education

It's not that U.S. wines are poorly received. Where they are marketed, they tend to do well, and Chinese experts definitely recognize their merits. A recent article in top industry magazine "Wine In China" reviewed the top wines (wines scoring 90 or higher) of 2011. Ten of the 26 wines reviewed were from the U.S., including two of the top four. In the broader market, however, the traditional strength of U.S. wines – good wines at good prices – works against them. Lacking a strong base of wine knowledge, most consumers in North China tend to judge wine quality based on price alone, typically buying off of either the top or the bottom of the wine list. Consumers also tend to be easily swayed by oft-repeated 'rules': that red wine is better than white, that certain wines must be served with certain foods, etc. ATO's experience, however, has been that, as consumers learn more and begin to form their own opinions, U.S. wines do quite well. Consumers are eager to learn, and quick to form their own opinions.

Strategic Placement

While consumers in the big three cities (Beijing, Shanghai and Guangzhou) are wealthy and sophisticated, competition in these markets is fierce – wine tastings and PR events are a weekly occurrence. Emerging city markets (second and third tier cities) have particularly good potential and are worth considering. Many of these cities have populations in the millions, and are growing faster than big three cities of Beijing, Shanghai and Guangzhou. Competition is also less fierce than in the big three, and consumers are less jaded and eager to learn more. One company attending an ATO/Beijing wine education seminar from the emerging market of

Zhengzhou (Henan province) was so impressed his company ended up purchasing a Napa-based winemaker. This chain of Henan-based wine clubs, Napa Wine Country, now exclusively features Napa Valley wines and has since spent over 2 million Yuan (\$300,000) advertising Napa wines. Key second-tier cities in North China include Qingdao (Shandong), Hohhot (Inner Mongolia), Tianjin, Xi'an (Shaanxi) and Zhengzhou (Henan). Each of these acts as a hub, servicing a number of other cities nearby.

Exporters should not confuse opportunity with ease of effort. Emerging city markets (ECMs) can be difficult to access, with improvised distribution channels, and consumer markets requiring a good deal of education. Because volumes are still relatively low, most are serviced by distributors based in one of the big three. In North China, most of these markets are serviced by established distributors in Beijing, who ship on to sub-distributors in major ECM hubs, who sell on to the final retailer/establishment. Few distributors clearing product through Customs in Beijing have the network of contacts needed to sell commercially viable quantities in these cities, but distributors based in these cities typically lack the capacity to source from overseas. Without direct connections to Beijing-based importers, they typically purchase wines third-hand from wholesalers, who source from original distributors. Even Qingdao, itself a major port of entry, typically routes imported wines through Beijing or Shanghai. ATO/Beijing works to connect importers in Beijing with distributors in ECMs – in a recent effort, the ATO led a team of 12 wine importers to the cities of Hohhot, Xi'an and Qingdao, arranging a combination of wine education seminar and mini-trade show. Building interest in these markets is important, as they add to the volume moving through major ports, helping to bring down overall costs.

Much of the appeal of imported product is related to the question of trust. Chinese consumers are painfully aware of the potential for being cheated, and genuine imports are generally seen as being of more reliably high quality. The problem intensifies the further from the big three cities you get – as products pass through more hands, the potential for counterfeits grows. As a result, consumers have learned to read labels carefully. Wines bottled overseas generally command a premium over bulk wines that are bottled in China. Likewise, wines purchased from a well-known and reputable source will command a higher price, even for the exact same label. Consumers are willing to pay for guarantees of quality. One interesting side effect of this has been the boom in online internet-based sales. Reliable figures are not available, but anecdotal evidence indicates a massive boom in online sales of everything from whole fresh chickens to fresh fruit to wine. One of the drivers of this boom has been the question of trust – online retailers are typically large, well-known companies who offer guarantees of authenticity and satisfaction. They also have the ability to post copious quantities of information about the product for consumers to peruse at their leisure, where most conventional retailers offer little more than a bottle on a shelf.

Your Friend, the Distributor

This gets to one of the biggest constraints in entering the Chinese market: distribution. Since relatively few U.S. winemakers or merchandisers are in a position to conduct direct promotion of their product in China, most rely on their Chinese partners not only for customs clearance, but for the full range of marketing, sales and promotional activities. Unfortunately, the market has grown so quickly that there are far more labels seeking to enter the market than there are experienced distributors. The largest, most capable distributors carry wines from across the world, but most are already carrying as many labels as they can reasonably service. Newer,

smaller distributors are coming into the market, but many are these relatively inexperienced, and many others are focused on one or another specific market niche.

For a winemaker or exporter interested in establishing a foothold in China, it is worth investing the time to find a good distributor and educate them about your product. There are plenty of labels already present in China with plenty more trying to get in, and competition for the services of the established distributors is fierce. Reaching out to the newer and smaller distributors allows you to present your specific message and shape the distributor's understanding of wine. As part of the recruitment process, it is important to actually meet the distributor face to face and visit their facilities. Many, many tales of business woe in China originate with hastily arranged partnerships. Since they will most likely be doing the marketing for you and acting as your brand's representative in China, selecting carefully and providing education is very much to your advantage. And remember, you are not alone.

Resources You Might Not Know You Had

Industry groups and the U.S. Department of Agriculture's Agricultural Trade Offices (ATOs), work together to build markets for U.S. products, including wine. The largest of the industry groups working with wine is the Wine Institute (WI), which represents California wine makers. WI conducts several multi-city wine education activities every year, and is gearing up for an expanded effort in China. The Napa Valley Vintners (NVV) are focused specifically on Napa Valley wines. NVV conducts a combination media tour/consumer education/distributor outreach event in several Chinese cities every year. The high-profile name of Napa, along with strong participation of vintners, guarantees good press coverage. The Washington Wine Coalition and the Northwest Wine Coalition are also active in China, and are a good resource for wineries from those regions. Wines from regions not covered by these groups usually work through either their state departments of agriculture, or through one of the State and Regional Trade Groups that work with USDA, such as the Western U.S. Agricultural Trade Association (WUSATA), Food Export Northeast (FENE), the Southern U.S. Agricultural Trade Association (SUSTA) or Food Export Midwest (FEMW).

ATOs provide support to the entire industry, and integrate wine into the larger food promotion effort. There are a total of five ATOs in mainland China, located in Beijing (North China), Shenyang (Northeast China), Shanghai (East China), Guangzhou (South China) and Chengdu (Southwest China) as well as an office in Hong Kong. These offices develop distributor contacts and work with industry associations on major educational activities, often arranging local media and industry contacts, and conducting their own wine promotional activities. ATOs also build wine into larger U.S. food promotional activities, funded through Foreign Agriculture Service (FAS) marketing programs. A short summary of wine promotional activities that ATO/Beijing has undertaken over the past year gives an idea both of how ATO supports wine market development, and how ATO works with industry groups.

- November, 2010: Food and Wine Media Tour: ATO/Beijing led a mixed team of magazine and internet media to agricultural production areas on the west coast and Chicago to learn about U.S. food products and trends. The tour included Napa Valley and in addition to generating a number of high-profile articles on U.S. food and wine, built media contacts that generated coverage of later ATO activities. This activity was funded by an Emerging Markets Program grant from FAS.
- September, 2010: Beijing Wine Buyer Education: ATO conducted a wine education seminar for wine

buyers and distributors in North China covering U.S. wines and production regions, and how to recommend them to customers. Distributor and hotel chain staff were targeted. One of the participants, a company that runs a chain of wine clubs in Zhengzhou, ended up purchasing a winery in Napa Valley winery. The event was funded through an EMP grant.

- December, 2010: Delicato Media Outreach: When Delicato's Chinese-born Chief Winemaker returned to visit his hometown, ATO Beijing connected him with China's largest web portal, Sina.com, working with the ATO in Guangzhou to provide media coverage of his homecoming. The story proved immensely compelling, and generated over 100,000 page views in a single week, and 200,000 by the end of the month.
- January, 2011: Ambassador's Media Dinner/Chinese New Year: ATO hosted a media food event for Chinese New Year at the Ambassador's Residence. The Ambassador's involvement generated strong media interest, which in turn generated interest by industry. In the end, most of the ingredients, and the services of the chef, were donated in exchange for media coverage. Featured products included two U.S. wines (from Lodi and the Columbia Valley) as well as Alaska King Crab and cod, Wisconsin Ginseng, turkey, pork and Washington Apples. Web stories garnered well over 200,000 page views in two weeks, and print articles appeared in four major newspapers. Industry donations for activities like this are a powerful tool for raising consumer awareness.
- March, 2011: Wine Institute Media/Wine Education Event: In March, WI held a wine education and food pairing event for media. WI provided the platform for the event, with Chinese distributors of U.S. wines presenting several of their offerings and guiding the tasting. ATO/Beijing worked with WI to build additional media coverage.
- April, 2011: Taste Napa Valley: China: The Napa Valley Vintners in April brought their annual campaign through Beijing in a whirlwind of activity that included distributor outreach, special events for wine industry VIPs and media and consumer education activities. Response was excellent, as the NVV group consisted mainly of winery owners – a guaranteed draw in China. The NVV event generated spinoff activities, most notably the Embassy's wine blog.
- April, 2011: The Washington Wine Experience: The Washington Wine Coalition sponsored several Chinese buyers to visit the Washington Wine Experience events, reaching out to ATOs for nominees. The ATO/Beijing nominee ended up adding 12 labels from Washington State to his product list as a result of his participation.
- March, 2011: Emerging Cities Mini-Expo and Wine Education: ATO/Beijing led a group of 28 food distributors, including 12 specializing in wine, to visit the cities of Hohhot, Xi'an and Qingdao in search of local partners in those cities. ATO provided the space and invited food and beverage contacts in each city for a mini trade show. A wine education component was included, which allowed potential customers to learn about U.S. wines prior to viewing product at the mini trade show. One Beijing-based distributor sold an entire container onsite in Qingdao, and all participants reported forming new relationships with local buyers. This activity was funded with FAS CSSF marketing funds.
- May, 2011: Kendall-Jackson Matchmaking: In response to an inquiry from Kendall-Jackson Wineries, ATO/Beijing identified several high-profile public events to build consumer recognition. The first occurred at a major fashion-media event sponsored by Cotton Inc. With guest star singer Da S, media coverage was massive, and Kendall-Jackson wines were prominently featured in the center of the

venue.

- September, 2011: PAS/ATO wine blog: ATO launched a monthly blog on U.S. wines with the Embassy's Public Affairs Section. Each month's article focuses on a different region/variety, followed by a brief quiz on U.S. wine knowledge. The winner will receive a bottle of the wine in question. The blog includes contact information for distributors carrying the featured wine.

This list does not include ATO's regular retail promotions that include wine as one of a broader range of products. ATO retail promotions in Tianjin and Qingdao last fall built new connections between distributors and retailers, adding new U.S. labels to the shelves in those cities. Retail and restaurant/hotel promotions represent a good opportunity to build better relations with your distributor: as noted before, wine makers generate a great deal of interest in China – and if the wine maker makes an appearance at a retail promotion with the distributor, it will help cement that distributor's business relationship with the retailer. ATOs meet regularly with U.S. wineries and wine sales agents, helping them to identify distributors and potential niche markets for their products. If you are traveling in China, please contact your local ATO!

You Are the Best Resource of All

One of the best lessons from the NVVA and Wine Institute activities is that wineries are their own best resource. The Chinese media is fascinated by the art of winemaking, and consumers and restaurateurs are eager to learn from the people who know the most about wine – the people who make it. Few wine makers actually come to China, so those who do generate a lot of buzz. As noted above, an appearance on behalf of your distributor can also be a big boost to his/her business.

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