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Wine

China: A promising market for wine industry

Overview
The Chinese wine and alcohol market, like many sectors in China's booming economy, has seen a significant growth in the last five to ten years. Factors such as growing affluence among its urban population, increased purchasing power and exposure to Western lifestyle have dramatically changed consumption patterns including the wine-drinking habit.

Bars, restaurants and entertainment venues are opening at a rapid pace, driving on premises channel to higher levels of consumption. The alcohol market is worth $60 billion, mainly dominated by local beers. Sale of Chinese spirits has plummeted as imported wines and spirits began to show phenomenal growth with CAGR of 42 and 32 percent respectively. For years, Brandy was the preferred Western drink, apart from beer, but it has slowed substantially. Nonetheless it has registered a growth of over 98 percent in the last five years. Whisky has grown by almost eight times in the same period and is overtaken brandy as the Western drink. Wines and especially imported wine have also enjoyed very healthy growth with the total market growing at 67 percent. The imported wine category exploded to over two million cases in five years.

Currently, the local wine owns the bulk of market share with 77 percent in terms of value and close to 80 percent in volume (this does not include bulk imports used for blending with local wines). There are now an estimated 450 wineries, although the largest five hold around 50 percent of market share. Established in 1983, Great Wall is the leading domestic brand. Dragon Seal was founded in 1987 with the French corporation Pernod Richard. Changyu is the largest wine manufacturer in Asia exporting to countries in Asia and Europe. Huadong and Lou Lan are other major brands, established in 1985 and 1976 respectively.

Red wine is preferred over white wine at a ratio of 4:1. This is often attributed to health benefits, the similarity between red wine tannins and those found in tea, and also the fact that the colour red stands for celebration in Chinese symbolism.

The Chinese wine drinking trend is not just a result of increase in people's purchasing power. It is also triggered by the substantial spending in the advertising sector with lifestyle dominated propositions. Nonetheless, the country's per capital wine consumption lags significantly behind the average global consumption. For example, beer is only 22 litres per capita and wine 0.7 litres per capita.

There is room for plenty of growth as a huge number of affluent consumers reach drinking age and millions of consumers of drinking age now fall within high income group. As great as the opportunities are, entering a new market is rife with difficulties and risks. The market is not for the faint hearted, but for the committed long-term player in the market. Complex, fragmented and competitive with powerful end outlets, the channels offer challenges for distribution and having a strong distribution partner is key to making your wine business a success.

Distribution

China's distribution channels for imported alcohol are quite basic. Often the importer is directly involved in selling by placing a team to work with a domestic distributor. It is important to convince the distributor to invest resources in improving sales staff's capabilities to sell your product. The distributors serve mainly as warehouse and invoicing agents who reluctantly devote their own resources to develop their territory customer base for the imported products.

Alcohol distribution companies range from more tightly controlled government companies like Ceroil in Beijing to fully independent private companies with strong government connections. The challenge is to find well-connected local distributors genuinely interested in expanding their wine product portfolio.

Export guidelines

The two most critical pieces of legislation are the wine standard (GB 15037) and the wine labelling law (GB 10344) both of which are administered by General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China. Exporters should make note of the following requirements:

- The name of the product is mandatory in China. The words 'grape wine' should be sufficient. However, it is advisable to qualify this with 'red', 'white', 'sparkling', 'semi-sparkling, 'fortified', 'sweetened fortified' etc. As wine can be considered to be made from a single raw material, it should be exempt from the requirement for ingredient listing. Nevertheless, sweeteners, preservatives and added colour (legal in the case of fortified wine only) need to be declared.
- The alcohol format is prescribed in Chinese regulations. The alcohol statement should be in the form 'Alcoholic strength xx.xpercent vol'. The tolerance between the actual and the stated alcohol is +/- 1.0percent.
- The volume statement must appear on the label. The statement must be on the same display panel as the word 'wine'.

- The name and address of the Chinese agent, importer or distributor must be shown on the label. The name and address of the producer is not mandatory, however if included does not need to be translated into Chinese characters.
- A country of origin statement is mandatory. Importers will usually request a Certificate of Origin to confirm this claim. Certificates of Origin can be obtained by state Chambers of Commerce.
- The date of bottling is required on Chinese labels.
- Wines with an alcohol content of 10percent or less are required to include a minimum durability date. Wines over 10percent alcohol are exempt from this requirement.
- The product type is mandatory for China. This can be indicated by the actual sugar content or by the category.