The evolution of wine emerging markets: the case of China
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ABSTRACT

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During the global financial crisis, spending on wine in traditional markets have slowed, so the wine world is now focusing more sharply on the emerging markets, such as Chinese market. The paper is aimed to provide an in-depth analysis of the evolution of the emerging wine markets, taking the particular case of China. The focused aspects are production, consumption trends, the distribution channels' development as well as a newly growing tendency of Chinese acquisitions of wine properties in wine producing countries. The research methodology, which refers to industry and company reports and media materials, is based on the content analysis of semi-structured interviews conducted with 28 Chinese wine company marketing managers. The findings show that the Chinese wine market has arrived to a turning point and gets into a period of progressive changes. Small-size importers start quitting wine market while large dealers professionalize and start gaining market share. Both local producers and foreign exporters penetrate the market implementing different strategies: while local producers promote Chinese wine culture and focus on improving wine quality, foreign exporters center on building distribution channels and adjusting to the specificities of the local market.

Key words: Wine market, China, production, consumption, distribution channels.

1. Introduction

The wine industry is one of the most globalized industries in the world. In terms of consumption, the European Union (EU) market is shrinking, from 53 L in 1991 to 44 L in 2009 (USDA, 2011) while Asian countries (China, Japan, Singapore, Korea) on the contrary, continue increasing, their wine consumption and therefore represent high potential as export markets (Lee et al, 2009).

Along with its recent and fast economic development, the Chinese wine sector has experienced substantial changes in terms of volume production, consumption habits and import figures over the past decade. Within its huge population of 1.3 billion, about 211 million Chinese form the middle class in terms of income, and over 300 million are middle class according to their consumption patterns. Even with an average annual wine consumption of only 1.12 liters per capita, the total wine market is sizeable (China Customs, 2011; Yu et al., 2009).

The paper analyzes the evolution of the Chinese wine market during the last decennia through the analysis of production and import trends, studies the roles and the influence of the major players on the market, and focuses on the distribution channels' development. A brief
overview of the newly tendency related to the Chinese acquisitions of wine properties and direct investments in different wine producing countries concludes our study.

1.1 Overview of the Chinese wine market evolution

China has a long wine history dating back 4,600 years (Fang, 2008), however, the real development started in recent decades. At the beginning of the Chinese economic reform in 1980, Rémy Martin ventured into China to set up the first joint-venture enterprise: Dynasty Wine Ltd, its wines were exported abroad in the first two decades. It was not until after 2000 that the economic boom finally provided the local population with sufficient income to support the domestic market. Other companies, including Cofco and Changyu, also raised production and gained strong market shares by 2005. 90% of their wine production was consumed in the local market.

The Chinese wine industry and market experience has grown substantially in production, consumption and import over the past decade. From 2000 to 2011, wine production increased from 10,500 mhl to 13,000 mhl (23%). Wine consumption increased from 10,695 mhl to 17,000 mhl (59%), while wine imports (including bottled wine, bulk wine and sparkling wine) increased sharply from 12.5 ML to 162 ML (OIV, 2012). Obviously, China is emerging as an attractive market, albeit a somewhat ‘unusual’ target for foreign wine businesses (Jenster and Cheng, 2008).

Figure 1 below presents the institutional and policy environment, in the context of “who is who” in the market place.

![Figure 1: Major players involved in the changing Chinese wine market](image)

2. Research Methodology

A qualitative approach to the in-depth, semi-structured 60-80 minute interviews was adopted to gain the respondents’ perceptions of market changes. The semi-structured interview
technique can provide reliable, comparable qualitative data. The interpretive methodology (e.g. Eisenhardt, 1989; Pettigrew et al. 2001) used afterwards to analyze the interviews focuses on investigating phenomena in their real–life context. To strengthen our understanding of the case, we triangulated with complementary information from previous research as well as industry reports, company reports, and media materials (Yin, 1994).

We targeted Chinese wine companies and interviewed 28 marketing managers (see Appndix for a list of the informants). They were provided with an information statement about the research and a copy of the interview questions. The interview questions were designed on the basis of a vigorous literature review focusing on the major issues related to the evolution of the Chinese wine market, distribution channel design, critical key success factors and future development trends.

2.1 China’s institutional and policy environment in the wine sector

The evolution of the Chinese wine sector is heavily influenced by China’s institutions and policies. The volume gain of 583 million liters of wine consumption in Chinese market during 1999 to 2004 was the result of government encouraging consumers to switch drinks Baijiu to grape wine, in order to preserve national stocks of rice for food production. According to the Chinese government, the 12th Five-year Plan projections for the wine industry indicate that wine consumption is set to increase alongside rising incomes and increased wine knowledge. This consumption policy has continued to result in a growth in grape wine sales, and can be expected to further advance wine expansion and consumption within China.

The biggest challenge facing foreign operators, however, is likely to be the import tax and new policies. Since China entered the WTO (January 2005), the import duty on bottled wine has been reduced from 43% to 14% and on bulk wine from 43% to 20%. The annual volume of imported wine in China has increased from 11.4 mhl in 2006 to 28.3 mhl in 2010. However, when the total tax for bottled wine is calculated, it is still 48%\(^1\). The Chinese government has recently enforced regulations supervising standards and labeling for foods and for wine in particular. It is critical for foreign exporters to understand the relevant rules to assure their long-term position in China. There are numerous laws and regulations relating to imported food and beverage products in China, moreover they are revised continuously. Besides these regulations, new policies in other fields (like Corruption policies) might also influence the Chinese wine industry.

Informant No.5: I think the wine industry development in China is greatly influenced by China's political environment. At the end of 2012, the new president Xi introduced a new policy against corruption. Government officials must not accept high price wines as gifts and they cannot consume excessively high priced wines during government dinners, so most high-end wineries are influenced by this new policy.

\[^1\]The current import duty on bottled wine is 14%. Added to this are a further 10% consumption tax and VAT of 17%. All are applied to the CIF price, giving an effective total tariff of 48.2%.

\[
\text{Total Import Tax rate} = \frac{\text{ICD (0.14) + VAT (0.17) + CT (0.10) + ICD (0.14) x VAT (0.17)}}{1 - \text{CT (0.10)}}
\]

= 48.20%

Bulk wine attracts an import tariff of 20%.
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\]

Bulk wine attracts an import tariff of 20%.

Since the law of the intellectual property is not complete in the Chinese market, many companies found their brand or trademark have been registered by a third party without notification. Exporters should seek professional advice on the protection of intellectual property, such as registering brand names (both in English and in Chinese), prior to engaging with a distributor in the market.

Informant No.18 (CASTEL company met serious intellectual property problem in Chinese market): After several years in the court, in 2012, we have to pay a fine of CNY 33.73 billion to a person, who registered our brand name in Chinese characters, and also we need to publish an apology in the China Industry & Commerce News' issue. After all this, we must develop another Chinese name. It strongly hurts our brand, because we are already known on the in Chinese wine market."

3. The industry and market environment

3.1 Wine production and local producers

At the time of the People's Republic of China in the 70s, wine production was about 0.85 mhl per year, while in 2011 total wine production had risen to 13,000 mhl. The total market grew by 58% between 1996 and 2001, 98.8% between 2001 and 2006, and 192% between 2006 and 2011.

In 2011, China had 560 thousand hectares of grapes for wine making (OIV, 2012) and over 940 wineries in operation; however, the wine market in China is extremely concentrated. The sale volume of ChangYu, Cofco and Dynasty presents over 37% of the Chinese wine market (See figure2). These companies have well-developed national sales networks covering both off-trade and on-trade channels. However, the local brands are facing challenges from foreign wine brands in terms of price/quality ratio.

Informant No.5: “The imported wines have cost-effective strength, and also the high product diversity. Even after the 48% import taxes, the imported wines still have an excellent quality/price ratio than Chinese local wines, and also the imported wines have rich product line.”

As a result, leading domestic wine brands have performed poorly in 2011 and 2012. According to the companies’ interim report, Chanyu's revenue declined in the first half of 2012 for the first time in five years, falling 2.51% year-on-year to 3.01 billion yuan ($470 million). Cofco’s sales declined 2.1% year-on-year and the Sino-French joint venture Dynasty saw a 10.5% year-on-year slump in its income in 2011.
China's wine companies are mainly located close to the grape supply areas (Jenster & Cheng 2008). Presently, the main areas of expansion are still located in the north (See figure 3). The largest producing region is Shandong with over 140 wineries producing 40% of all China's wine. The quality of Chinese wine has improved greatly in recent years, partly because of the advice from French oenologists. With a labor force of 795.5 million, and about 1,400,000 kilometers of arable land, China has bountiful agricultural potential for increasing wine production.

Informant No.5: “Many companies, no matter the large wineries like Chang Yu or the small wineries like Yi yuan, are now trying to make their own special wines, adapted to the local culture, and they all started producing a certain amount of high quality wines, which can correspond the quality of the middium to high range French wines.”
3.2 Wine consumption and customer preferences

China has been described as the world's fifth largest wine market in sales (Girard, 2013). The Chinese have a cultural tradition of consuming alcoholic beverages, however, it has traditionally been dominated by beer, but since the 1980s, connections have been made to the international wine market, to France in particular, and the taste of Chinese drinkers has begun to change. The 290 % increase in total consumption in ten years (from 246.9 ML to 964 ML) and a sharp increase in wine imports confirm that China is rapidly emerging as an attractive market (Jenster and Cheng, 2008). Sales in 2012 were estimated at 1.6 billion bottles. Compared for example to wine consumption of 47.7L and 37.1 L per capita in France and Italy respectively (OIV, 2013), the per capita consumption of wine in China has a strongly increasing tendency though still remains low (1.12 L in 2012). The country presents a stable valuable market for wines in the very near future.

Table 1: The Still Light Wine market consumption (IWSR)

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>36,11 0</td>
<td>45,59 5</td>
<td>51,75 3</td>
<td>63,69 0</td>
<td>72,41 7</td>
<td>93,12 1</td>
<td>125,11 1</td>
<td>152,45 8</td>
<td>170,49 9</td>
</tr>
<tr>
<td>Volume</td>
<td>(000s 9</td>
<td>liter</td>
<td>case</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liter</td>
<td>0.24</td>
<td>0.30</td>
<td>0.34</td>
<td>0.42</td>
<td>0.48</td>
<td>0.61</td>
<td>0.82</td>
<td>1.00</td>
<td>1.12</td>
</tr>
<tr>
<td>per capita</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Year-on-year increase</td>
<td>13.5 %</td>
<td>23.1 %</td>
<td>13.7 %</td>
<td>28.6 %</td>
<td>34.4 %</td>
<td>21.9 %</td>
<td>12 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share</td>
<td>1.1 %</td>
<td>1.0 %</td>
<td>1.1 %</td>
<td>1.2 %</td>
<td>1.3 %</td>
<td>1.6 %</td>
<td>1.9 %</td>
<td>2.2 %</td>
<td>2.3 %</td>
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<tr>
<td>of alcohol mkt</td>
<td></td>
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</tbody>
</table>

At the same time, the wine knowledge of an average Chinese consumer is somewhat limited (Lin, 2003). Informant No. 7: “The Chinese customers are not knowledgeable about wines, the sales depend on how you teach and push them.”

According to Tang (2006), more than 40 % of Chinese wine consumption is through organizations’ purchasing wines for business and relationship-building reasons. For example, organizations serve wine to key stakeholders, such as important customers and government officials, at cocktail parties or formal banquets. The second major consumption category, accounting for nearly 22 % of total wine consumption, is entertainment – an individual purchases wine for social get-together parties with friends or for celebrating a big family event. Only 13 % is private consumption, for personal consumption at home.
There is an overwhelming preference for red (accounting 85% of the whole consumption) versus white wine in China. At the same time, sales of Red are growing at a faster rate (5 year CAGR of 21%) than whites (5 year CAGR of 14%). Customer preferences are also driven heavily by advertising, with top producers running extensive mass-marketing campaigns to build brand awareness. This brand-driven environment, with a lack of emphasis on taste preferences, has also affected the market for foreign wine. Regardless of brand or vintage, Bordeaux and Burgundy wines maintain strong reputations on the Chinese market.

Informant No. 5: “The Chinese customers’ wine consumption is influenced heavily by the country of origin and the brands, especially in Tier 2 and Tier 3 cities, when they see Bordeaux, they think it is a good wine.”

High-end consumer demand for first-growth French wines (Balestrini and Gamble, 2006), such as Lafitte and Latour, has caused a tremendous jump in prices. Although consumer appreciation and knowledge of wine have improved in recent years, purchases continue to be driven primarily by brand-conveyed prestige and status (Rabobank, 2010). Developing a truly localized strategy for both packaging and marketing in response to specific consumer preferences is a must in China today.

3.3 Wine imports and foreign operators

Foreign wine makers began making inroads into China after the import tariffs were dropped. Some European winemakers hoped that increases in sales in China could more than offset losses at home. At the same time, the upwardly mobile Chinese population, eager to display their wealth and sophistication, has since developed a taste for imported wine along with other foreign luxuries. Many small importers turned to wine business after seeing the high increase of Chinese wine imports rates. However, without clear strategy and the knowledge of the distribution channels, these small importers could easily quite the industry.

Informant No.5: “As from the Chinese custom data, in the beginning of 2012, there were 4500 wine importers, and then in July 2012, there were only 3000 wine importers, now in the March of 2013, there are only 2000 wine importers. Many small importers quite the wine market, they cannot survive for long term, because they have no strategy, they sell using just some occasions.”

Currently, imported grape wine accounts for only 19.1 % of volume sales in China (Vinexpo, 2013) with domestic wine dominating (See figure 4). As wine importers are competing in the high-end market, their market share in terms of revenue is high. Sales of bottled imported wine are growing at nearly four times the rate of domestic wine sales.

Wine imports surged from $23.3 million in 2002 to around $140 million in 2006. In 2012, France retained its grip on importers in China, representing nearly 50 % by volume, followed by Australia, Spain, Chile, Italy and the United States (See Table 2). Those countries — the “Big Six” — continue to account for more than 90 % of bottled imports. The biggest shifts were with Australia, which saw slight growth but continued to lose market share. It now holds 12.7 % of the market by volume, far from the days when it claimed more than 20 %, although there is some consolation in that it ranks high in value per bottle. On the other hand, Spain saw large gains in 2012 and 2013, up nearly 50 %. It now represents 11.3 % of the market although has very low value (6.9 % by value). However, as mentioned by Beverland
(2009), in China the manager quoted above used a middleman for importing wines from Hong Kong who had good connections into China. These quantities we cannot calculate.

![Chinese Wine Consumption Chart]

**Figure 4:** Percentage of domestic wine and imported wines in the Chinese market, (VINEXPO 2013, IWSR)

<table>
<thead>
<tr>
<th>Origin</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013 Jan-June</th>
</tr>
</thead>
<tbody>
<tr>
<td>French</td>
<td>34%</td>
<td>36.8%</td>
<td>39.7%</td>
<td>44.6%</td>
<td>46.3%</td>
<td>48.8%</td>
<td>47.8%</td>
<td>46.7%</td>
</tr>
<tr>
<td>Australian</td>
<td>22.6%</td>
<td>20.8%</td>
<td>20.1%</td>
<td>20.5%</td>
<td>16.2%</td>
<td>13.5%</td>
<td>12.7%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Italian</td>
<td>9.1%</td>
<td>12.1%</td>
<td>8.7%</td>
<td>6.9%</td>
<td>7.7%</td>
<td>7.8%</td>
<td>7.3%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Chilean</td>
<td>6.2%</td>
<td>6.3%</td>
<td>7.4%</td>
<td>7.5%</td>
<td>7.2%</td>
<td>7.2%</td>
<td>7.8%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Spanish</td>
<td>8.8%</td>
<td>8.1%</td>
<td>5.5%</td>
<td>5.1%</td>
<td>6.5%</td>
<td>7.9%</td>
<td>10.0%</td>
<td>11.3%</td>
</tr>
<tr>
<td>US</td>
<td>9.9%</td>
<td>5.6%</td>
<td>6.7%</td>
<td>6.9%</td>
<td>6.3%</td>
<td>5.1%</td>
<td>4.8%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Other</td>
<td>9.5%</td>
<td>10.4%</td>
<td>11.9%</td>
<td>8.6%</td>
<td>9.9%</td>
<td>9.9%</td>
<td>9.6%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
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</table>

Bottled imports have grown strongly in recent years. Lot of domestic wine has been produced from domestic bulk wine blended with cheap imported bulk wine. However, as domestic grape production is increasing and wine production techniques are improving, this kind of blending has dramatically decreased. In 2009, bottled imports exceeded bulk import volumes for the first time. (See figure 5). This trend reflects the demand for good quality wines that suit a growing middle class consumer base.

The price of wines varies sharply; domestic wines are sold primarily at the lower end of the pricing spectrum, while imported wines are sold at the mid-to-higher end. The average retail price at the lower end is RMB20-30 (2.50 €-3.75 €) per bottle. Mid-range wines sell for RMB30-80 (3.75 €-10 €) per bottle and are aimed at consumers with higher incomes and who are more exposed to wine. Premium wines sell for RMB80 (10 €) and upwards per bottle.
Imported wines typically range from RMB80-400 (10€-50€) per bottle and are in direct competition with high-end domestic wines. Numerous factors drive growth in imported wines: interest in Western culture, products and lifestyles, increasing incomes, the healthy image of wine compared to other alcoholic beverages in China, and the high quality perception of imported wines.

![Figure 5: Wine Imported into China (Volume Shipped)](Image)

Source: Global Trade Atlas, Euromonitor International 2011

4. The key success factor: Managing wine distribution channels

As Stern et al. (1996, p. 502) point out, “there is general agreement that the distribution channel is the key to any company's success in China.”

Informant No.11: “The Chinese wine market is a very competitive market; the final winners will be those who started building their distribution channels from the very beginning.”

However, the management of distribution channel relationships remains one of the most difficult and complex tasks (Liu et Wang, 1999).

Informant No.11: “The strengths of Chinese domestic wines are in mature channels and we can invest in them as we have enough money.”

In China, the consumption channels for domestic wines consist of three main categories:
- Restaurants and liquor stores by securing deals with the help of agents; there are also some state-owned distributors who deliver nationally;
- Supermarkets;
- Large warehouses in big cities which focus on direct sales.

We observe the expansion of leading retailers which affects off-trade – supermarkets (62% share) and smaller specialized wine stores (14%) are slowly gaining market share (Euromonitor, 2010). Around 54% of wine sales in China were through retail chains (supermarkets, discounters, other outlets). Wine retail sales increased volume share slightly in 2009 (Euromonitor, 2010).

Booming B2C wine sales, websites are set to educate Chinese consumers and increase their knowledge of grape wines and stimulate grape wine sales in the long term. More wine information, such as wine and brand history and taste features, help consumers to select the wines. Frequent promotion by the websites also aims to attract and keep customers and ensure they consume more wine in the future.
Informant No.27: “An on-line store is a good channel for wine sales. Besides, it is a good platform for wine education. It is easy to introduce different wines, so customers can get more knowledge of the appellations, wine producing regions, as well as on grape varieties.”

Inspired by the distribution channel system model in the German wine market (Hanf et al. 2012), we suggest the following figure which presents the Chinese wine distribution channel system (see Figure 6).

Figure 6: Chinese wine distribution channel system data from Euromonitor, 2010 and Wine China online & Wines-info.com

The distribution channels for Chinese imported wine are totally different from those used for the local wines. The majority of wines sold in supermarkets are local wines. Imported wines are sold mostly in hotels, restaurants and through foreign retail. The major foreign retail (156 Carrefour, 39 Metro, 30 Auchan ...) represents 35% of sales of imported wines (Wine intelligent, 2012). Chinese consumers trust international supermarket chains because they believe that the international supermarkets can ensure the good quality of the goods on sale. Thus, consumers do not worry about fake bottles in the international store. With expensive wines gaining increasing popularity among China’s new rich layer of society, and Rothschild seen as a status symbol, counterfeiters are taking advantage of the relatively inexperienced palates of Chinese consumers. However, according to Liv-ex, the price of 2008 Lafite fell 45% in 2011, a fact which has been attributed by some to waning Chinese demand (Heinrich, 2013).

Imported wines hold the highest volume share in the tier 1 cities of Beijing, Guangzhou, Shanghai and Shenzhen. These four cities account for 53% volume of imported wines sales, with the on-trade channels representing 80% of total sales (Rabobank, 2010). Future development is expected in the tier 2 cities and will mainly rely on top big hotels. However, the off-trade retail channel will be increasingly important. In line with the government’s plan to focus economic development on China’s interior instead of the more affluent coastal areas,
improving distribution and disposable incomes will give rise to more consumers beyond Tier 1 cities having access to imported products, including wine. As these ‘new’ wine consumers enter the market, price will be an important consideration in addition to packaging. Tier 1 cities are gradually diversifying sales through retail and specialized shops. Competition in the imported wine sector in China’s Tier 1 cities is increasing rapidly; there are already signs of saturation and over service. It is likely that consumption will grow faster in the Tier 2 cities as their economies expand.

There are generally two ways for a foreign wine to arrive on the Chinese consumers’ tables (see Figure 7). The first and most important way is via specialized wine importing and distribution agents. However, there are only two types of agents: 80% of this kind of firm is specialized importers representing trading companies; they sell large quantities, sometimes even containers, to a primary distributor, who resells to either on-trade or off-trade channels. Another 20% are rather large, established firms, such as ASC, who work as both importers and primary distributors. As they are strong sales force by themselves, and with offices in many Chinese cities, they can easily distribute directly to supermarket or restaurants.

Figure 7: Structure of distribution channels’ of imported wine in China
Data from Rabobank, 2010

4.1 The new trend: Investment in vineyards all over the world

This Chinese market, with its relative unsophistication and increasing purchasing power, presents interesting investment opportunities for rich Chinese. Recent examples of entries into this sector include Chinese purchases of foreign vineyards, full-service distributors catering to the unique qualities of the Chinese market, and high-net-worth Chinese investments in wine as a part of their wealth management strategies. The rationale behind this acquisition was to master the techniques of winemaking in France and gain a reputation as a wine trader. Bordeaux has received the greatest attention because of the strong reputation in the Chinese market. About 50 wineries have been acquired by Chinese companies since 2008 (Girard, 2013). Chinese acquisitions are growing in other wine production centers such as
California's Napa Valley, Australian Barossa Valley and in New Zealand. We conducted interviews with Chinese investors and Chinese wine distributors to understand the process and its probable evolution.

Some of the investors kept everything as it was after acquisition (e.g. Cofco and Maotai), however, most of the investors have brought all kinds of innovations to the traditional wine estates (Bouzdine-Chameeva et al, 2013), and they employ Chinese people in the estate, and seek the rubberstamp of French expertise and prestige to inflate the price of their bottles. Some of them even cut off the old network of the old business sell some or all of the wines they produce to the Chinese market, and invite their main customers to visit the property, putting in place wine tourism options and activities as part of the promotion package. While at the same time, the Chinese investors are facing greater risks than minor cultural challenges, e.g. a misunderstanding between Chinese investors and a French vineyard over which nation’s property laws should apply to the acquisition.

Informant No.1: “We cut all the old networks and old customers and shipped everything to China, it is not sufficient, we sold all our stocks, and we buy wine from other Bordeaux producers.”

4.2 Managerial implications

Analysis of the data collected suggests practical solutions for companies entering the Chinese wine market. As this market continues to rapidly evolve and become more competitive, consumers’ preferences are also evolving, with more choices and more knowledge about wines. In response to changing customer perceptions of wine, domestic firms have begun to adjust their marketing strategies. While domestic wine brands have traditionally focused on lower price tiers, producers are increasingly looking to move further up-market, investing in world-class equipment and seeking out international best practices.

Some Chinese-produced wines have already received international recognition for their efforts, with one producer recently winning Decanter magazine's “Middle East, Far East & Asia” category for red wines. At the same time, with the increasing spread of wealth beyond the largest coastal cities, China's wine market is now expanding into smaller markets across the country and the emerging middle class, enriched and open to purchasing non-traditional products, could provide significant new opportunities for wineries worldwide. However, wine will only begin to become a mass market product when drunk by rural inhabitants and urban professionals alike, and this is a very long way off. It has been estimated that, at present, discounting the large number of rural workers and lower paid industrial workers who might never buy a bottle of wine in their lives, the maximum number of people worth considering as a marketable demographic in China is at the very most 167 million. If this population segment is used then the average per capita consumption (including off-trade and on-trade) would be about 5.54 liters per capita or 7.4 bottles (750ml) during 2009.

5. Conclusions

As an example of an emerging wine market, the Chinese wine market has evolved considerably over the past decades and continues to evolve. In line with the Chinese government’s policies to boost economic development and to support red wine consumption in the interior regions, China has become one of the world’s most exciting markets for wine.
Despite the low quality at the moment, the local producers maintain their positions, because of their strengths in channels and in branding. The next step for them to succeed in future will largely depend on the extent to which the wine industry is able to coordinate industry and government resources in raising awareness and solidifying its premium quality, yet ‘value for money’ identity beyond Tier 1 cities.

At the same time, foreign exporters also see strong development in the Chinese wine market with a localized strategy and a focused niche market. The future channels for imported wines has a trend of switching from on-trade to off-trade, however, the off-trade are still mainly dependent on the international chain supermarkets (Rabobank, 2010).

Direct investments in wine estates in France and other wine producing countries are on the increase, in spite of the language and culture difference. And as most of the wines produced are sold in China, this trend confirms the rising potential of the Chinese local market and the trend of slow, though stable, consumption growth. Regional market developments in China, and in particular, the differences in regional economy base and customer preferences, have not been covered in our study. We therefore, hope that future research will give some consideration to our calls for the specific refinements outlined above.

6. References


The Evolution of Wine Emerging Markets: the Case of China
Tatiana Bouzdine-Chameeva, Wenxiao Zhang, Jacques-Olivier Pesme


APPENDIX

Table A.1: Interview’ Information on key Informants and contexts

<table>
<thead>
<tr>
<th>Informant</th>
<th>Company Type</th>
<th>Position</th>
<th>Age of company</th>
<th>Person's experience in wine sector (years)</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Wine importer/distributor</td>
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</tr>
<tr>
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<td>4</td>
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<td>Wine Journal</td>
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