Changing Tastes: China's Imported Wine Industry

By Dezan Shira & Associates
Editor: **Harry Handley**
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China's **taste for wine** is growing rapidly, and the country is set to overtake the UK to become the world's second largest wine market by 2020, reaching a value of US$21 billion. According to VINEXPO research, the market is anticipated to grow by an average of seven percent each year over the next four years, with 6.1 billion liters of wine expected to be sold in 2020. Each year a growing percentage of the wine sold in China is being imported from abroad; last year this figure passed 10 percent for the first time.

Customs data shows that in 2016, 638 million liters of wine were imported into China, with a total value of US$2.4 billion – a year-on-year increase of 15 percent in volume and 16 percent in value. This growth is expected to continue, as popularity for imported wine filters down to China's lower tier cities and wine consumption becomes a more common pastime.

As such, a number of opportunities are presented for both online and offline wine importers. The supply and demand side trends, as well as key considerations for the differing distribution channels and challenges in the market, are all aspects that should be considered by potential entrants.

Trends

Demand side – the consumers

In recent years, there has been a significant shift away from the traditional Chinese alcohol baijiu towards wine, and increasingly imported wine. Until now, wines from famous vineyard regions such as Bordeaux have been the favorites of Chinese consumers due to their renowned heritage and prestige.

However, as the market matures, importers are beginning to see a shift in demand towards **wines from less well-known regions.** Tom Morris, co-founder of Shanghai-based wine importer LaoWines, predicts that increased Chinese tourism to places like South Africa, Australia, and New Zealand, and the subsequent sampling of local wines, will lead to growing demand for these countries' wines within China.

The second important trend is the expected drop in average price spent per bottle, according to Euromonitor research. This can be attributed to a number of factors.

Firstly, the government's crackdown excessive spending by officials will continue to put downward pressure on the demand for expensive wines. Secondly, the aforementioned new world wines are typically cheaper, with preferential tariff rates also keeping these prices low. For example, the tariff on Australian wine is gradually being reduced until it reaches zero in 2019. Finally, as wine consumption becomes more commonplace, there will be a shift to higher volume, lower price purchases.

Supply side – the businesses

Currently, the imported wine market in China is highly fragmented, with many small importers locally focused within one city. However, Morris predicts that in the near future smaller importers will join forces through mergers and acquisitions, taking advantage of the economies of scale afforded to larger firms, and consequently better able to compete on price. Price competition and discounting have been highlighted by Euromonitor as a key trend they expect to see in the coming years. Hence, it is up to the businesses in the market to adapt to the challenging conditions ahead.

Selling imported wine – online vs. offline

Online

The key consideration when selling online is the choice of channel. China's e-commerce infrastructure is highly developed and offers a wide range of platforms, including online marketplaces such as Tmall and JD.com. A large number of importers use these channels due to their massive user base and complete shopping experience.

However, the ubiquity of e-commerce poses many challenges for wine sellers. The inability to sample wine before purchase is highlighted by online consumers as a key grievance. A way around this would be for wine importers or labellers to include a clear taste guide on wine bottles.

Increasingly, importers and distributors are using delivery apps such as *Dianping* and *ELeMe* to sell their wine. Typically, consumers using these channels require delivery within a very short time frame, ranging from one hour to one day. This requires a different business model and adds an extra challenge in terms of both warehousing and delivery.

Additionally, running company-owned couriers is usually out of reach for wine importers. Consequently, the use of third-party couriers also presents a test to internet-based sellers, as they have very little control over the reliability of the last-mile delivery companies. Particularly in luxury industries, service has a large impact on brand perception. As such, poor service from external couriers may tarnish the image of online wine sellers.

Offline

Though there is a global shift towards e-commerce and online business, Laowines' Morris, whose company is in the process of rolling out a number of bottle shops across Shanghai, regards the offline channel as an exciting frontier for wine, a view supported by leading industry commentators.

Brick-and-mortar stores overcome the service constraints that limit online wine sales, and can be scaled up rapidly by franchising. Specialist wine stores can sell an experience, providing the opportunity to taste wines before buying. Additionally, in terms of logistics, shops can act as scaled down warehouses to ease inventory management and also support an online rapid delivery strategy.

What's more, alcohol vending requires the correct licensing; this will dictate where the store can be located and what it is allowed to sell. A permit must be obtained from the Alcoholic Drink Circulation Administration Office and the location must also be registered as an entertainment venue if events such as tastings are to be held.

Challenges for wine importers

Importing goods to China is fraught with difficulties; and three key challenges for wine importers have been identified. Firstly, the customs clearance process in China can be lengthy. Shipments may be left standing in the port for some time; any incorrect storage or additional delays in customs clearance may risk impairment of quality. As such, regulations regarding labelling and storage should be thoroughly checked and all required documentation should be prepared in advance of the shipment's arrival.

The presence of fake alcohol in the Chinese market often leads consumers to be tentative when buying alcohol. In 2015, it was estimated that up to 70 percent of wine in the Chinese market was fake. It is therefore vital for importers to gain credibility for supplying legitimate, high quality wines. Offline exhibition and tasting events are an effective tool to legitimize businesses. While China's imported wine industry poses a number of challenges, the country's immense and rapidly expanding market make navigating these obstacles worthwhile.

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