An Analysis of the Wine Industry in China and Recommendations for Exporters

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Introduction

In recent years, the Chinese wine consumption has grown from 11 million hectoliters in 2001 to 12 million hectoliters in 2005, recording an impressive 8.56% increase in four years. This makes the Chinese wine market the sixth largest market in the world behind France, Italy, U.S., Germany, and Spain. Therefore, it is no surprise that wine exporters all over the world are shifting their emphasis from traditional European sales to Asia and other growth markets such as Russia, Canada, and the UK. In addition, the potential growth in per capita consumption is also promising in China. Even with the average Chinese consumption growing to just the Japanese consumption level, the total Chinese consumption would surpass that of France, making it the #1 wine consuming country in the world. Import market has more than tripled in the recent years – from $25 million in 2004 to $77 million in 2006.

Research Methodology

Both primary and secondary data sources were used to collect data for this study. The secondary research helped us identify changing consumer preferences and heightened competitive conditions in China. Specifically, we were able to analyze China's wine industry competitive structure, identify consumer preferences for both domestic and foreign wines, and present profiles of the six foreign countries that currently have a major presence in the Chinese wine market. The primary research of this project comprises of interviews from executives in 10 California wineries. These in-depth interviews lasted between 20 minutes to 1.5 hours. The interviewees were asked first one set of questions that apply to all interviewees regarding general information about their business and expertise. The second set of questions is separated by non-exports and exports to China. For the exporters to China, probing questions were used to further identify problems and opportunities.

Secondary Research Findings

Domestic Wine Producer Industry. While the structure of China's wine-producing industry is very concentrated with four major players, the number of smaller wineries has also been growing. The four major players – Zhangyu, Great Wall, Dragon Seal, and Tunghua – dominate 60% of the Chinese market (Jing, 2006). In regards to trade barriers, the Chinese government has made significant changes in the past 10 years in terms of reducing tax and tariffs. Non-tariff barriers have mixed reviews as some experts claim that the official rates are not as the same as the actual assessments, other claim that comparatively the Chinese port of entry is quite easy.

Wine Consumer Preferences. Two major themes emerged from several studies by the U.S. and Chinese researchers on the wine preferences of Chinese consumers for domestic wines. First, red wine is preferred over white wine. About 80% of the wines sold in major urban areas such as Shanghai and Beijing are red wines (Gratton and Hegel, 2006). Second, dry reds also can also have complementary use with non-alcoholic beverages. In general, domestic wines dominate shelf space in supermarkets while there is not sufficient data for restaurants and hotels, where most foreign wines are sold (Summer, et al. 2006). Previous studies have identified the following themes regarding Chinese consumers' preferences in foreign wine. Country of origin, price and brand recognition are the most important factors when Chinese consumers consider a foreign wine.

Foreign Country Competition. Over 80% of wine imported into China is bulk wine (California Wine Export Program, 2006a). According to Chinese customs, foreign import wines increased from 1,993 tons to 10,340 tons between 2000 and 2005 and the first quarter of 2006 showed a 14% increase over 2005 (Herzfeld, 2006). Only 14% of those imports are bottles less than 2 liters. France, Australia, Italy, and US lead in exporting bottled wines into China. According to U.S. customs, nearly 90% of all US import wines are bottled wines.

Secondary Research Findings and Recommendations for Wine Exporters

Strengthen the US Brand in China. Based on US share of the market and perception of consumers and retailers alike, it is clear that the US wine brand is relatively weak compared to other old world and new world countries. The US spends much of its country brand marketing efforts in its current major export markets such as the UK, Japan, Germany, Canada, and Italy. One executive commented, "people [wine executives] are going to want to go to [the countries] where the sales are." This illuminates the typical short-term mentality of US wineries.

Education. Education is going to be the game for the US wine industry in China for the next five years. Trends in China have shown that urban high end tasting rooms, wine boutique shops and other wine consumer retailers are on the rise. Interviewees indicated that there's a shortage of wine consumer publications such as Wine Spectator in China.

Market Entry Strategies. France has extensive joint ventures with Chinese enterprises. Australia has a focused marketing strategy that stresses quality and value. Italy has developed cultural affinities in food and wine with the Chinese wine consumer. The US wine industry needs more innovations in how they approach the Chinese wine market.

In sum, the Chinese marketplace presents numerous challenges to US and other exporting countries both in terms of changing consumer preferences and heightened competitive conditions. This paper presents insights into China's domestic and foreign competitive structure, consumer preferences for domestic and foreign wines, profiles of the six countries that currently have a presence in the market and recommendations to increase exporting effectiveness for US and other wine exporters to China. The wine marketplace in China will be the largest in the world one day and those countries that best adapt now to their unique consumer preferences and competitive conditions will reap huge benefits in the long run.