Exploring the 'Laws of Growth' in the China Wine Market

Justin Cohen
Ehrenberg-Bass Institute for Marketing Science, University of South Australia, Australia
(justin.cohen@marketingscience.info)

Carl Driesener
Ehrenberg-Bass Institute for Marketing Science, University of South Australia, Australia
(carl.driesener@marketingscience.info)

Ava Huang
Ehrenberg-Bass Institute for Marketing Science, University of South Australia, Australia
(ava.huang@marketingscience.info)

Armando Corsi
Ehrenberg-Bass Institute for Marketing Science, University of South Australia, Australia
(armando.corsi@marketingscience.info)

Johan Bruwer
Ehrenberg-Bass Institute for Marketing Science, University of South Australia, Australia
(johan.bruwer@unisa.edu.au)

Richard Lee
Ehrenberg-Bass Institute for Marketing Science, University of South Australia, Australia
(richard.lee@unisa.edu.au)

Klaus Kilov
Ehrenberg-Bass Institute for Marketing Science, University of South Australia, Australia
(klaus.kilov@unisa.edu.au)

Larry Lockshin
Ehrenberg-Bass Institute for Marketing Science, University of South Australia, Australia
(larry.lockshin@unisa.edu.au)

1. BACKGROUND

Evidence-based marketing is necessary to improve the capability of the marketing function. Sharp (2010) and Romaniuk and Sharp (2016) provide detailed evidence for the Ehrenberg-Bass Institute for Marketing Science's 'laws of growth' founded on original work by Ehrenberg (2000). Despite the 70-year history of this literature documenting patterns of brand-buying with seminal works such as Ehrenberg (1959) and Ehrenberg and Goodhardt (1968), its application to the wine category is much more recent.

Currently, China is a market of great interest to the wine sector. There is a growing body of knowledge of perceptions of imported wine in China, but not a consumer view of competition in the market. This research aims to document the market structure of the retail wine market across a range of tier 1 and tier 2 cities in China.

Cohen et al. (2011) explored market structure in the Australian wine market from the perspective of grape variety. Cohen and Tataru (2011) investigated the French wine market. Corsi et al. (2017) further extended insights into market structure in France. Trinh et al. (2019) documented the structure of wine buying from the perspective of country of origin in the UK market.

A notable difference in wine research is that brand is not often explored, but rather attributes like country of origin (COO), region of origin (ROO), grape variety and price tiers. These cues are important from a producer and wine association view. Managerially, there is a need to explore market structure using consumer-based cues due to a lack of brand awareness.

2. METHODOLOGY

This research reports market structure in China from a COO perspective showing the law of 'double jeopardy' (Sharp 2010), and the duplication of purchase following Scriven and Danenberg (2010). It illustrates the negative binomial distribution (NBD), extending Trinh et al. (2019). A survey of 2871 alcohol buyers was conducted in May/June of 2019 across 15 cities in China. The sampling frame used the guidelines of Cohen and Lockshin (2017) and preliminary findings from Cohen et al. (2018). The instrument was designed to capture claimed purchasing over a 6-month period using the findings of Nenycz-Thiel et al. (2012) and Ludwichowska et al. (2017).

3. RESULTS

Table 1 below shows the double jeopardy pattern for COO in China.

Table 1: Double Jeopardy in China

Country	Market Share (%)	Penetration (%)	Average Purchase Frequency
France	24	58	2.8
China	20	40	3.4
Italy	9	25	2.4
Portugal	8	21	2.4
Australia	8	22	2.2
Spain	7	19	2.5
USA	6	17	2.5
New Zealand	6	17	2.5
Chile	5	17	2.2
Argentina	3	9	2.4
South Africa	3	7	2.8

Average	**9**	**23**	**2.6**

Double jeopardy is evident. There is large variation in the penetration of the COOs, but very little variation in the average purchase frequency. It shows that the only way to sustainably grow any COO in China is to increase the number of buyers rather than increase repurchase (loyalty).

Table 2 below shows the duplication of purchase analysis for COO in China.

Table 2: Duplication of purchase by COO in the China

		% who also bought (last 6 months)										
Buyers of	Pen	France	China	Italy	Australia	Portugal	Spain	USA	New Zealand	Chile	Argentina	South Africa
France	58		44	24	20	18	18	16	14	18	7	5
China	40	64		28	25	21	19	20	18	19	9	7
Italy	25	55	45		21	22	24	19	21	18	12	8
Australia	22	52	45	23		23	19	21	20	26	15	11
Portugal	21	49	39	25	24		24	22	27	17	17	10
Spain	19	54	42	31	22	28		25	25	16	16	14
USA	17	53	48	28	28	27	28		21	17	19	10
New Zealand	17	49	43	31	27	34	28	21		26	16	12
Chile	17	60	46	27	35	22	18	17	26		17	12
Argentina	9	45	39	31	36	39	33	35	29	30		14
South Africa	7	42	40	29	33	28	36	25	28	28	18	
Average	23	52	43	28	27	26	25	22	23	22	15	10

Table 2 shows that there is one wine market in China. There is not a domestic Chinese wine buyer and an imported wine buyer. It shows that competition in the wine category is driven by size. For example, when buyers of Australia buy other COOs they are more likely to buy France or China. That being said, this method illustrates that Australia and Chile share buyers between them more than their market penetrations would predict perhaps due to being from New World.

The NBD pattern is evident across all COOs (see Figure 1 below). This shows that most buyers buy infrequently (light buyers). There are slight deviations from this pattern, which are likely due to availability in the market.

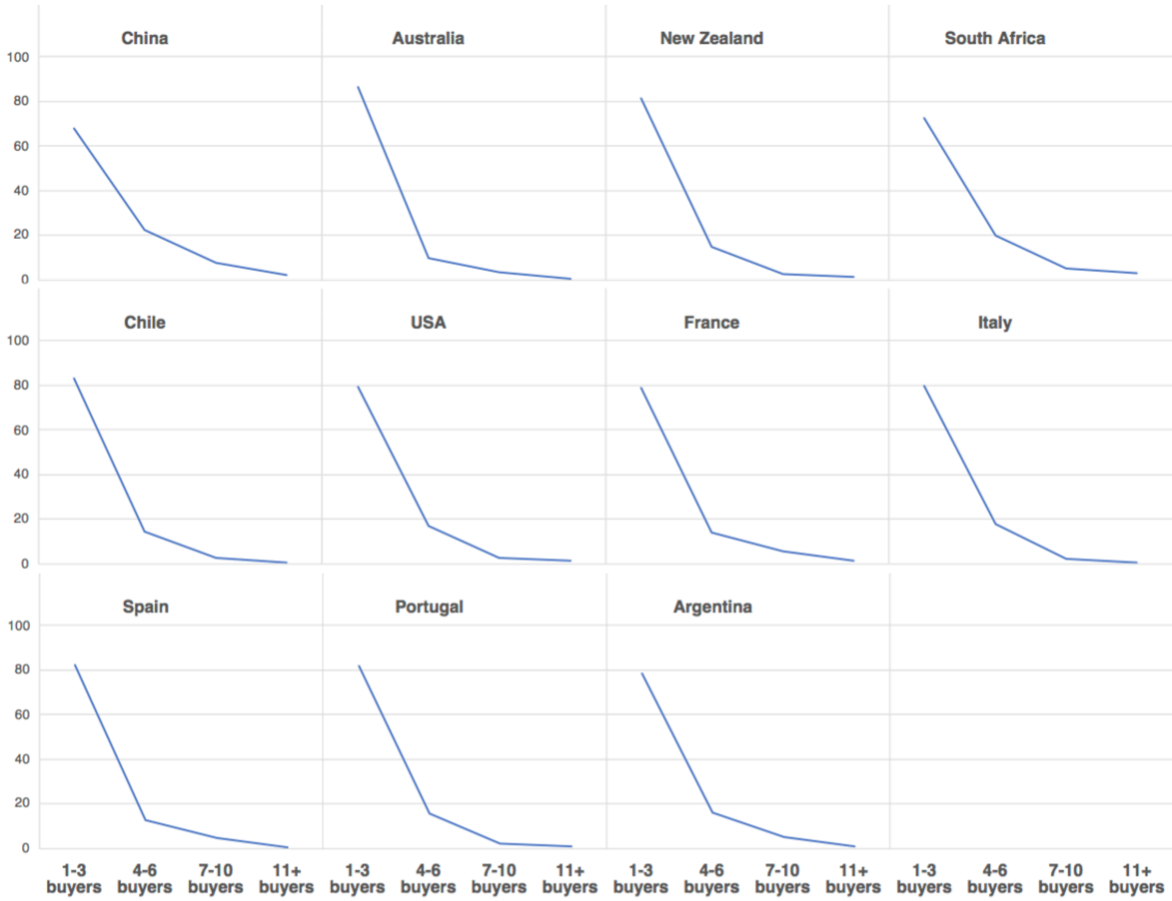

Figure 1: NBD graphs by COO in China: percent of buyers buying 1-3x up to 11+x

4. CONCLUSION

This research illustrates that despite the lack of readily available panel data in China, market structure can be generated using claimed purchase data and extends the 'laws of growth' to COO in China. The managerial implications are that COOs compete head on with each other in China; there are no market partitions. Growth will be achieved by increasing the size of your customer base so strategies that increase penetration must be deployed. Finally, communicating only to heavy buyers will have limited impact. The evidence shows that the light buyers are key to growth and should be the target of communications.

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