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CHINA WINE MARKET REPORT

April 2014

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China Wine Market Guide Report

Executive Summary

This executive summary does not seek to be a comprehensive summary of the content of the report but rather highlights the China wine market insights that are relevant to Australian small and medium scale producers of premium wine.

The key insights offered by the report are:

- The rapid growth of discerning and aspirational middle class Asian consumers will increase dramatically the demand for wine, and China is the Asian market where wine demand growth will be greatest by several orders of magnitude.
- However, wine export business models and export strategies have to be reformulated specifically for the China market in order for Australian exporters to secure ongoing sales at profitable margins. Future success will require more business capability and marketing investment.
- Although consumers generally still have limited wine knowledge, consumer preferences for wine in China are evolving rapidly. Chinese wine consumers appear to be broadening their horizons in wine choice, drinking occasions, sales channels and price segments.
- Consumers who frequently consume imported bottled wine now report that informal occasions rate highly for wine consumption and this suggests a tendency to normalise wine consumption rather than reserve it only for business gifts or special occasions.
- The implication of the evolution of the China wine market towards developed wine market characteristics of consumption and trading will be a reduction in the current market opaqueness, which will disadvantage those exporters who have relied on uninformed consumers and traders to place wines through channels and at prices that will not survive the scrutiny of a more informed market. This will put at risk some supply push B2B business models.
- China’s centre of gravity of middle class income growth and hence premium wine demand growth opportunity is moving inland from the coastal cities.
- Customs clearance data suggests that Australian wine already is taking advantage of this geographic dispersion within China of premium wine demand, as manifest in strong penetration of Australian wine beyond tier 1 cities. The extent of this is illustrated by the disproportionately high market shares of Australian bottled volume imports in the provinces of Sichuan (69.6%), Shanxi (67.4%), Jilin (61.5%), Guizhou (46.6%) and Hubei (44.6%). The sixth highest ranked market share of Australian bottled wine is in the coastal province of Yunnan with 35.6% and is closely followed by inland provinces of Shaanxi (34.9%) and Guangxi (31.9%).
- The import market share of Australian bottled wine in another two important destinations Shandong Province and Fujian Province is 24.9% and 10.7% respectively, showing that penetration of Australian bottled wine in Shandong Province is well above its penetration in Fujian Province.
- Social media and online retail play a bigger role in China than in other markets, therefore South Australian exporters need to recognise the importance of the direct to consumer channel in generating sales results and of the Chinese internet and local social media applications for their critical role in brand building.
Distribution is the greatest challenge for most wine exporters to China. Rabobank (2012) comments “the channel structure of the Chinese market is most unlike any other significant wine market in the world, and those channels continue to evolve in an unusual fashion.”

China customs data (December quarter 2013) reveals a large number of importers, mostly importing small quantities and with nearly half having no wine trade expertise.

- Of the total 2473 wine importers, 428 were importing Australian wine.
- The top 20 of these 428 importers only account for 28% of Australian wine import volume, underlining the large number of importers bringing in small volumes
- Only 11 of the top 20 Australian wine importers are wine related businesses

This informal and obscure distribution system has opened a route to market for many Australian exporters who otherwise would not have been able to gain access to the China market; it has provided security of payment (usually cash up front); and it has been a means of achieving significant sales volumes of premium wines at higher prices than might otherwise have been attainable, especially for those ‘buyers own brands’ misrepresented as premium and rare.

Obviously some of these opportunities will not survive as the China wine market matures and the usual competitive forces of an informed market reassert themselves.

That sustainability concern is further amplified by an assessment of the exporting businesses at the Australian end of the China wine export pipeline.

- In the case of South Australia, the annual number of exporters was 298 and of those 108 exported a relatively small quantity, namely 1 container or less. Also the majority of those exporting South Australian wine were independent traders rather than well-established wine producers exporting their own brand. These observations raise questions about the commitment to, and investment in, the China market by many of the current exporters. Consequently how fragile is current SA wine export performance in the China market?

For South Australia wine exporters and prospective exporters, the lesson is that for sustainable export performance in the China market it requires a more discriminating choice of distribution mode and a substantial ongoing investment in distribution relationships and brand marketing support.

Government influence over the wine market is greater in China than in many markets and there has been speculation that at some future juncture Chinese Government policies will become more supportive of local wine producers in their strategies to compete more successfully with imports at the premium end of the market.

- The implication for SA wine exporters is that they need to factor into their risk appetite the possibility that trading conditions in the wine market can change quickly

Australian wine has been successful in capitalising on the rapid growth in imports to the China wine market to achieve a 13% of volume and 16% value share of bottled imports, the second highest behind the market leader France.

- Over the last 5 years, the compound annual growth rate (CAGR) of total Australian wine exports for the China (PRC) market has been 20% for volume and 25% for value.
- China has become the number one destination for Australia’s high value (more than $67.50 FOB per case) exports.
- However most recently (2013 calendar year), the growth trend for Australian bottled wines has stalled, with export volumes declining overall by 7% and high value (more than $67.50 per case) declining even more at 10% - although if the comparable 8%
growth in high value exports to Hong Kong is taken into account, the outcome for China and Hong Kong combined is ameliorated to a decline of 5.7%.

- The 2013 decline in sales has been attributed by Wine Australia to the Chinese Government austerity measures, nevertheless there also may be other causes as the China wine market matures. For example some of the “gold rush” enthusiasm that has been propelling the supply push into the market may be waning.

- Future growth prospects for Australia premium wine, assuming current competitiveness is retained, are substantial but less than is sometimes pronounced
  - If Australian shares of the bottled total and the ratio of high value exports were maintained at 2013 shares, and China bottled wine imports grew at 10% per year (less than the 20% historical growth rate but a strong recovery from the 2013 decline) then by 2017 annual growth projections for additional Australian bottled exports would be in the range 2 to 1.5 million cases of which additional high value exports would be 385,000 to 300,000 cases.
  - The higher value export growth potential would be profitable for SME producers. The lower price wine export opportunity would be more suited to wine producers of larger scale or to traders who can secure opportunistic supplies. In the marketplace these wines would earn lower margins due to more intense competition and, where their route to market is reliant on the obscure market distribution described earlier, their market access and sales channels would be under threat from a maturing market.

- Factors that will bear on Australian wine’s competitiveness are:
  - Positives
    - Increasing recognition of authentic (as distinct from contrived) value as the market matures
    - Formal distributors increasing their market reach, benefitting the larger and more heavily invested wine exporters
    - Improving brand awareness in the market, benefitting wine brands with strong provenance, channel presence and promotional support
    - Australian dollar falling in value against the RMB and some competitor suppliers
  - Negatives
    - Market growth will be strongest in price points below the high value segment
    - Informal distribution platforms will have diminished market reach (Australian export volumes are heavily reliant on informal distribution)
    - “Supply push” exports will find it more difficult to secure importers
    - Weak brands will be subject to greater price competition
    - Competitors e.g. New Zealand, Chile, have a pricing advantage due to Free Trade Agreements

- So while for an individual wine business the China market may well be the most attractive export prospect, for the Australian wine category the China opportunity is not large enough nor possibly secure enough to restore sustainable profitability and resolve supply imbalances.

- The implication for business development strategies of both individual wine exporters and the Australian category is the necessity to temper their justifiable enthusiasm for the China opportunity with measured diversification into other export markets with growth prospects.

- Hong Kong can offer an easier route to market than direct export to mainland China.
• Export model alternatives that are consistent with SME business objectives of sustainable exports with acceptable risk and financial returns include:
  o Australian based export agent
  o Non wine trade buyer/broker in China
  o Wine buyer/broker in China
  o National wine distributor agency
  o Regional wine distribution agency
  o Joint venture with distribution network company
  o Establish own importing company
  o Establish own retail outlets
  o Chinese investor in an Australian wine business

• The major observations derived from the case studies 1 to 8 interviews can be summarised as:
  o A high incidence of “accidental” distribution partnerships
  o Very frequent approaches in Australia made by Chinese persons offering to represent the winery in the China market
  o Critical importance of personal relationships in successful distribution arrangements
  o Personal networks of Chinese importers are a major determinant of distribution reach
  o Many distribution arrangements are in flux, are achieving export sales but are not suited to the longer term export strategy of the business. Interest in better distribution, and in possible Chinese investment
  o The business development strategy for development of the China export market commonly defaults to the Chinese importer/distributor
  o Market visitation with associated tasting activities was the dominant marketing activity
  o Several exporters are taking a cautious and selective approach to growing export sales in order to protect their brand
  o Most export to Hong Kong as well as to the China mainland, and there are significant examples of distribution penetration beyond mainland tier 1 into tier 2 and even tier 3 cities.
  o Most exporters are receptive to changes in future export strategy to improve sustainability and growth
1. Introduction

The South Australian Government through the Department of Primary Industries and Resources (PIRSA) has funded the South Australian Wine Industry Association (SAWIA) to prepare this report in order to facilitate the success of South Australian wineries in the China wine market.

The objective of the China Wine Market Guide report together with the China Reference Manual is to provide the market insights, tips and tools that can enable individual SA wineries to achieve export growth with better profitability and route to market security.

The target audience for this report are smaller and medium (SME) size South Australian wine businesses who face the greatest challenge in developing sustainable exports to China with acceptable risk and financial returns.

Accordingly the scope of China market analysis is largely confined to imports of premium (the terminology “high value” is used throughout this report) bottled wine since this is the segment of most relevance to SME’s and offers the greatest potential for ongoing profitability. Sales and profitability of bulk and low priced wine fluctuate since they are strongly influenced by external factors such as exchange rate volatility and seasonal supply surpluses. Efficient exporters in these lower price segments operate different and usually simpler business models than those required to succeed in branded premium segments and therefore much of this report is not directly relevant to their China business development strategies.

“High value” exports are defined as those priced at more than AUD $67.50 per 9 litre case and the corresponding high value segment in the China retail market is above approximately 150 RMB per 750 ml bottle. The equivalent to the high value export definition is A plus B segments, where the references in this report refer to quality segments A to F.

It should be remembered that this report is a snapshot in time – the China wine market continues to evolve rapidly and therefore wine businesses should closely monitor the marketplace and adjust their business model accordingly.

1.1. China as a developing wine market

There is an overwhelming amount of commentary about the Chinese wine market from a wide range of sources.

This report focuses on information sources that are authoritative and it filters the information to present that which is relevant to small and medium (SME) Australian wine producers.

The first point to make is that the China wine market is markedly different from the developed wine markets with which Australian producers are more familiar, and it continues to evolve rapidly. Consequently wine export business models and export strategies have to be reformulated specifically for the China market if an Australian exporter is expecting to secure ongoing export sales at profitable margins.

It is important to have an appreciation of the factors driving the evolution of the China wine market so that export strategies can anticipate the likely changes, rather than being based solely on current export sales experience. It will be argued later in this report that current sales experience is not a reliable guide to future sales performance.
From the broadest perspective, the transformation of China’s economy and society are major drivers of increasing wine consumption. McKinsey Quarterly, *Ten forces forging China’s Future*, July 2013, identified the following transformational trends:

1. The great rebalancing
   - Shift in economic growth away from investment and exports towards domestic consumption
2. Infrastructure advances
   - Construction of roads, ports and airports to complete the national networks
3. The green challenge
   - Addressing the severe environmental impacts resulting from rapid urbanisation and industry growth
4. Manufacturing’s makeover
   - Improving efficiency and value chain integration to cope with rising wages and more discerning consumers
5. Rise of the upper middle class
   - By 2022 McKinsey forecast 75% (was 4% in 2000) of China’s urban consumers will achieve the purchasing power somewhere in the range between Brazil and Italy.
6. E-tailing extraordinaire
   - E-tail is a more dominant retail channel in China and is continuing to grow rapidly
7. Innovation’s new spark
   - China is showing evidence of real innovation leadership and paying more attention to IP protection
8. Financier to the world
   - China is internationalising its currency and outwards foreign investment is growing fast
9. Investor confidence
   - Improving transparency and greater investment in due diligence is assisting investor confidence
10. Cultivating human capital
    - Major investment in business creativity and leadership skills is required, especially since these challenge the values of a hierarchical society

In summary China is unlike any other market now and its development path will not be familiar or predictable to Western business interests.
2. China (PRC) as a market for imported bottled wine

2.1 Growth drivers of wine consumption

The countries of Asia are growing their economies faster than the countries of the developed world and therefore increasing their share of the world economy.

The Australia in the Asian Century white paper (Australian Government, 2012) analysed the anticipated transformation in world markets by 2025 attributable to the rapid rise in income per head in Asian countries as illustrated in chart 2.1 (page 50) reproduced as Figure 1 below.

Figure 1. Asia’s resurgence is set to continue

"The Asian region is expected to be home to the world’s fastest growing middle class, whose pursuit of an improved quality of life will see Asian economies emerge as the world’s dominant consumer markets.” Australia in the Asian Century, page 62.

These more discerning and aspirational Asian middle class consumers will increase dramatically the demand for discretionary luxury food and beverages, including wine.

China is the market where this demand surge for wine will be greatest, given that wine consumption and its growth rate is already many orders of magnitude greater than other Asian markets, as illustrated by the graphic below sourced from a presentation by Kym Anderson, University of Adelaide in August 2013.
As outlined in the foregoing, the primary driver of wine demand in China has been increasing incomes and the changing demand preferences of the middle class. Western preferences have infiltrated Chinese middle class discretionary and luxury expenditure and wine has been a significant beneficiary.

Although China therefore is an enticing prospect for foreign businesses including wine, achieving success in the market is getting tougher. The Economist in a leader article headlined “China loses its allure” (January 25th 2014 edition) outlines how competition from local firms is heating up and that “Consumers will longer pay a hefty premium because a brand is foreign. Their internet savvy and lack of brand loyalty makes them the world’s most demanding customers” (my emphasis).

In the business world in China where gift giving plays a vital role in developing and nurturing the relationships necessary for success, wine has been adopted as a desirable gift. In this context, wine must convey the required prestige for the gifting occasion and recipient, hence the importance of brand reputation and the provenance and scarcity from which that reputation is derived. This explains the pre-eminence in the China market of French first growth wines specifically and of premium imported wines generally.

Another factor which is a powerful driver of wine demand in China is the perceived health benefits of wine consumption, refer market research data in figure 3. Coupled with the Chinese Government’s discouragement of grain based spirits, a shift in alcohol consumption is occurring in favour of wine. Despite this wine accounts for only 12% of total alcohol consumption, so there is potentially considerable scope for wine’s share to increase purely on the basis of a preference shift as distinct from the income growth factor.
2.2 Consumer preferences

Consumer preferences for wine in China have been evolving rapidly.

Reports dating from 2010 (e.g. Rabobank, Project Tannin, October 2010) provided analysis that enabled Chinese consumer purchase and consumption behaviour to be summarised as follows:

- Wine knowledge of consumers and much of the trade is relatively undeveloped
- Perceived prestige, as signalled by price, country of origin, brand, and packaging is presently a more important purchase cue than wine taste. However value for money is also a factor, subject to the wine selection being a “safe” choice in satisfying the favourable image requirement
- Red wine is the dominant preference (85%), with Cabernet Sauvignon being a preferred varietal
- Gift giving and banquets are the major occasions for wine, resulting in 60% of sales occurring during the Chinese new year and Autumn festival holidays
- Consumption of expensive (imported) wine occurs mainly outside the home and typically at banquets plays a “toasting” role rather than matched with the food
- Purchase of imported bottled wine is mainly through the on-trade channel (restaurants and hotels)
- 53% of imported wine is sold in the four tier 1 cities of Shanghai, Beijing, Shenzhen and Guangzhou with an additional seven tier 2 cities accounting for a further 23%.

The assessment from market research at that time was that consumer behaviour and preferences for imported wine were constrained by caution:
“Chinese consumers are primarily interested in making a safe purchase that can confidently convey a suitable level of prestige, status and respect. More often than not this means French.”

More recent research funded by the Grape and Wine Research and Development Corporation (GWRDC) and undertaken by the Ehrenberg Bass Institute for Marketing Science from Wine Intelligence’s Vinitrac® for China data in March-April 2013 confirms earlier findings. This “*China Wine Barometer (CWB): A look into the future*” focuses on the awareness, attitudes and perceptions Chinese consumers have about wine and their specific attitudes and behaviours in the on-premise sector. The executive summary was:

“1. In terms of awareness, red wine and beer dominate, but Champagne, white wine and whisky follow closely.

2. The main motivations to consume wine are its health and relaxation benefits and its ability to assist in the creation of a friendly atmosphere.

3. Imported wine is stated to be consumed at least once per month by roughly 2/3 sampled.

4. The quintessential bottle of wine in the mind of Chinese consumers is a French, Bordeaux, Cabernet Sauvignon sold at less than $AUD 40.

5. Awareness of red wine is highest amongst wine types, with France generally the leader, but there is indication that Australia is gaining ground in Tier 2 cities.

6. Whilst Chinese consumers have a defined set of associations of French and Chinese wine, they have not yet developed strong associations for Australian wines or the Barossa Valley, Australia’s most salient region.

7. France and Italy stand out as fine wine producers with China perceived as a predominant commercial producer. There is not a clear perception how to categorise Australian or the other major producers in this context.

8. Imported wines are more often consumed in restaurants.

9. Previous tastings, recommendations by peers and food-matching suggestions are key choice drivers of wine in the on-premise sector.

10. The majority of wines are purchased at less than 250 RMB (~ AUD 40) in an on- premise venue, but Chinese consumers dramatically increase their spend to over AUD 100 during a business dinner or formal meal/celebration.”

However more generally, Chinese wine consumers appear to be broadening their horizons in wine choice, drinking occasions, sales channels, and price segments:

- Consumers still have limited wine knowledge but rate of knowledge acquisition is faster than expected; wine occasions are diversifying away from dominance of business entertaining, gifting and prestige occasions; retail channel rapidly growing share of imported wine sales is diluting the historical on-trade dominance.
- Price points between 100-150 RMB are growing faster as more wine is sold for personal consumption
- Improving awareness of more wine producing countries due to marketing campaigns especially by Chile, Australia, New Zealand
- The geographic dispersion of imported wine is accelerating with much faster penetration in tier 2, tier 3 cities and beyond than was the experience for tier 1 cities.
- Social media and the online sales channel are even more important in the China wine market than in more developed wine markets.
Some evidence of the evolution of the China wine towards that typical of more developed wine markets can be gleaned from further interpretation of the March 2013 Wine Intelligence Vinitrac® data, commissioned specifically for this report. It should be remembered that the data presented here is NOT typical of the wine consuming population generally since the sample is composed of upper middle class income group who are imported wine drinkers drawn from the cities of Beijing, Guangzhou, Shanghai, Wuhan, Chengdu, and Shenyang. Therefore the findings might be interpreted more as a predictor of the wine market’s future direction than current status.

The survey results show with regard to occasion, that imported wine drinkers drink wine across the full range of occasions without the dominance of the business occasion that was the previously observed to be the case.

Figure 4. Comparison of percentage drinking once a month or more by occasion

![Comparison of percentage drinking once a month or more by occasion](image)

Source: Wine Intelligence Vinitrac, March-April 2013 data, reinterpreted by independent analyst

It is interesting to note that regular consumer (more than once per month) informal occasions rated highly for wine consumption – this suggests a tendency to normalise wine consumption rather than reserve it only for business gifts or special occasions.

The survey results also suggest that Australian wine is achieving significant penetration beyond tier 1 cities. This data for regions shows that the Barossa and Hunter Australian regions have gained greater penetration in tier 2 than tier 1 cities, whereas Western Australia has done better in tier 1 than tier 2 cities.

China wine imports customs clearance data analysis, refer Appendix 9.3, provides independent evidence to support this finding of Australian wine penetration beyond tier 1 cities. While the data reveals that 81% by volume of Australian bottled wine was transferred into four provinces and three cities that come directly under central government control namely Guangdong province, Shanghai, Shandong province, Beijing, Fujian province, Tianjin and Jiangsu province, table 2 in 9.3 shows wider geographical dispersion with 16 other provinces accounting for the 19% balance of Australian wine import volume. Further analysis of this geographical dispersion follows in section 2.4.
Although it is somewhat premature for the China market to be very cognisant of wine regions, it is interesting to see that there is a degree of other regions awareness developing, despite Bordeaux dominance.

Conversion rates are generally less than 50% - with Bordeaux as an outlier with a conversion rate of 74%. Western Australia has the highest awareness rate of any Australian/NZ region, most likely because it has the word Australia in the region name. Marlborough, from New Zealand has a higher awareness rating than either the Barossa or Hunter Valleys.
focused. Note Bordeaux ratio is relatively low because of large volumes of low priced wine offset the high value prestige wine.

**Figure 7. Spend ratio, ratio of more than 150 to less than 150 RMB**

![Spend ratio >150/<150](image)

Source: Wine Intelligence Vinitrac, March-April 2013 data, reinterpreted by independent analyst

In summary all of the indicators from the early adopters of premium wine are that the China wine market is evolving quite rapidly towards more familiar developed market patterns of wine consumption. This evolution will not go so far as to eliminate some of the unique cultural dimensions of Chinese wine consumption, but it will remove much of the uncertainty, barriers to comparability and poor accessibility between wine offerings.

The consequent reduction in the current market opaqueness will disadvantage those exporters who have relied on uninformed consumers and traders to place wines through channels and at prices that will not survive the scrutiny of a more informed market.

The message for South Australian exporters is that the China wine market is changing rapidly and it is critical that their wine offering and route to market strategies adjust in response. An export strategy that worked in 2012 may miss the market entirely by 2015.

### 2.3 New landscapes of wine demand opportunity

China’s centre of gravity of urban development and middle class growth is moving inland from the coastal cities.

As well as being driven by economic forces, this geographic shift is an objective of the Chinese Government’s current 5 year plan. The Economist Intelligence Unit report “China’s second and third-tier cities. Opportunities for Australia”, identified the time scale over which Chinese cities are predicted to achieve the 30,000 RMB annual income threshold at which consumers have significant discretionary spending power.
As these cities progressively join the ranks of middle class urban areas, they become new markets for imported wine. Also the uptake of wine happens faster as a result of the localisation of wine knowledge that has already occurred in tier 1 and tier 2 cities as well as the pervasive impact of social media and website platforms. At least initially, new entrant exporters may have an advantage in the niches in these immature wine markets.

Therefore South Australian exporters new to the China market should consider the advice from the China wine trade:

“The other specific advice from the trade is to escape the “congestion” of trying to run marketing campaigns in the Tier 1 cities of Beijing and Shanghai. “I would not focus on the main cities like Beijing or Shanghai ... you’re going to get lost!” warns one respondent. “There’s lot of competition, and how do you differentiate yourself? You might want to focus, say, on Hangzhou or other second and third tier cities. Do this in two or three cities, find two or three good partners and go from there…”

Source: Wine Intelligence, *Who will be the winners in China’s “Wine Market 2.0”?* February 2012.
Interestingly, the customs data analysis in Appendix 9.3 suggests that Australian wine importers appear to be following a similar strategy to the foregoing recommendation.

Table 3 in Appendix 9.3 shows the Australian share of imported bottled wine clearances into provinces and cities of China. It can be seen that there are 15 destinations in total where Australian bottled wine has **volume market shares** of more than 20%.

Australian bottled wine has strong penetration in some inland territories of China with 7 out of the top 10 highest Australian market shares being in the inland provinces.

Market share of Australian wine in the imported wine market of Sichuan Province is ranked first with 69.6%, followed by market share in Shanxi Province of 67.4% and Jilin Province of 61.5%. Market shares in the provinces of Guizhou (46.6%) and Hubei (44.6%) are ranked fourth and fifth respectively. The sixth ranked market share of Australian bottled wine is in the coastal province Yunnan with 35.6% and is closely followed by inland provinces of Shaanxi (34.9%) and Guangxi (31.9%).

Import market shares of Australian bottled wine in Guangdong Province and Shanghai, are 23.9% and 16.1% respectively, compared to their status as the strongest (first and second ranked) destinations for Australian bottled wine in total.

The import market share of Australian bottled wine in another two important destinations Shandong Province and Fujian Province is 24.9% and 10.7% respectively, showing that penetration of Australian bottled wine in Shandong Province is well above its penetration in Fujian Province. The weaker penetration of Australian wine in Zhejiang and Beijing at 7%-8% may reflect either weaker Australian distribution or stronger competition between imported wine in those two places.
Figure 9: Location of the main provinces and cities importing Australian wine (1)

Figure 9: Location of the main provinces and cities importing Australian wine (2)
2.4 Social media and online retail

Social media in China is particularly influential in wine awareness and recommendation, due in part to less developed consumer wine knowledge. The reliance on the internet for wine information in China is greater than in for comparable wine drinkers in other countries, as detailed in Figure 10.

Figure 10 Internet use for wine information, China comparison

For the purposes of this research, we have assumed that our findings are representative only of wine drinkers who use the internet, and therefore need to be adjusted to account for overall internet usage among the target population.

<table>
<thead>
<tr>
<th>CHINA</th>
<th>USA</th>
<th>UK</th>
<th>FRANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target population of wine drinkers</td>
<td>Urban, aged 18-50, upper middle class, imported wine drinkers</td>
<td>Regular wine drinkers (drink at least once per month)</td>
<td>Wine drinkers</td>
</tr>
<tr>
<td>% of target population who use the internet</td>
<td>88%</td>
<td>74%</td>
<td>81%</td>
</tr>
<tr>
<td>% of target population who use the internet for finding information about wine</td>
<td>69%</td>
<td>41%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Source: Wine Communicators of Australia seminar prepared by Wine Intelligence, March 2012

As well online shopping is far more prevalent in China.

“Online retailing in China, dubbed ‘e-tailing’, has doubled every year since 2003. By 2020 the size of China’s online retail market is predicted to reach up to US$650 billion, exceeding the combined value of online markets in the USA, UK, Japan, German and France. With over 590 million internet users, China boasts the world’s largest online population - more than the US and Japan combined – and still growing at almost 10 per cent per annum.”

Source: Austrade, China Online Retail Sector, October 2013

The Austrade report cited above provides details about Chinese online retail platforms.

The digital landscape is quite different in China, instead of Google there is Baidu, instead of Twitter there is Weibo, in place of Facebook there is Renren and instead of YouTube there is Youku.
The implication for South Australian wine exporters is the importance in the China market of targeting the direct to consumer channel for sales results and to embrace the internet for its critical role in brand building.

However, given the differences in China’s digital landscape and the accessibility constraints affecting foreign websites, effective online engagement with Chinese consumers requires the exporter to have a presence within the China market – either through a distribution partner or some other representative arrangement.

2.5. Wine distribution

Distribution is the greatest challenge to most wine exporters to China. Even those exporters with current distribution arrangements in China tend in many instances to be dissatisfied with distributor performance.

“The channel structure of the Chinese market is most unlike any other significant wine market in the world, and these channels continue to evolve in an unusual fashion”
Rabobank Mind the Gap, 2012

As in other wine markets there are professional wine distributors, with a few such as Nanpu, ASC Fine Wines and Shanghai C & D operating nationally, with others more geographically focussed at a sub national or regional level. These distributors typically offer a full service distribution, sales and marketing role with access to all sales channels. However, these distributors are already fully committed in terms of their wine portfolios, so that new market entrants are extremely unlikely to achieve a listing with them.

The rapid growth of imported wines and the strong margins being achieved has provided the incentive for a large number of Chinese companies to take up wine importing and distribution. By 2011, the number of wine importers had surged to 3,863 of whom 3,380 were importing less than 100 tonnes per year (China Customs data).

Analysis of the 2013 Customs data for the December quarter, refer Appendix 9.3, which captures annual peak shipments for the Chinese new year selling period, reveals that of the 2473 wine importers, 428 were importing Australian wine. The top 20 of these 428 importers only account for
28% of Australian wine import volume, underlining the large number of importers bringing in small volumes.

There are 301 wine importers in Shandong Province with 58 of them importing Australian wines whereas there are 232 wine importers in Fujian Province with 29 of them importing Australian wines.

Another important observation from the data is that only 11 of the top 20 Australian wine importers are wine related businesses. These 11 companies either specialised in Australian wine importation such as Tall Tree or have invested in an Australian winery such as the Taifeng Group. For the remainder of the top 20 and most of the smaller wine importers, they have little knowledge or experience with wine and rely on their business and personal networks to distribute and sell the wine.

Channel placement and end use of the wine therefore tends to be ad hoc and lacks transparency as far as the exporter is concerned. Much of this wine is purchased by government agencies and State Owned Enterprises for entertainment and gifts.

This informal and obscure distribution system has opened a route to market for many Australian exporters who otherwise would not have been able to gain access to the China market; it has provided security of payment (usually cash up front); and it has been a means of achieving significant sales volumes of premium wines at higher prices than might otherwise have been attainable.

However for committed long term exporters there are some serious downsides of this obscure distribution network:

- it usually does not provide the opportunity for brand building
- the supply chain often is deficient with respect to logistics e.g. inadequate temperature controlled transport and warehousing
- the sales channels are not scaleable, that is it is not possible to grow the business
- it is not a reliable route to market because the opportunistic traders who are the Chinese importers will quickly exit the market if profitability declines or channel placement opportunities dry up
- this route to market only exists because the China wine market is so immature in terms of consumer knowledge and fragmented distribution infrastructure. As the market evolves towards the more traditional developed wine market, the space and margins of this distribution will be squeezed, thereby threatening its viability.

In addition there is another feature of this mode of distribution that has inflated returns to exporters namely ‘such wines are also often specially created ‘buyer- own- brands’, with importers and end users requiring a more affordable product that can be deliberately and often mistakenly promoted as premium and rare, without the risk of consumers being able to benchmark price or quality.” Rabobank *Mind the Gap*, 2012.

Obviously such opportunities will not survive as the China wine market matures and the usual competitive forces of an informed market reassert themselves.

The extent to which Australia and South Australia’s exports rely on the obscure distribution route to market is of concern given its vulnerability (to both sales volume and sales value) as the China wine market evolves.

That concern is further amplified by an assessment of the sustainability of the exporting businesses at the Australian end of the China wine export pipeline.

Wine Australia (WEAR December 2013) has reported that there were 911 wine exporters to China in 2013 and that during the year 333 exporters ceased while 327 commenced. These statistics highlight the high degree of one-off wine trading occurring with China.
In the case of South Australia, the number of exporters was 298 and of those 108 exported a relatively small quantity namely 1 container or less. Also the majority of those exporting South Australian wine were independent traders rather than well-established wine producers exporting their own brand. These observations raise questions about the commitment to, and investment in, the China market by many of the current exporters. Consequently how fragile is current SA wine export performance in the China market?

For South Australia wine exporters and prospective exporters, the lesson is that for sustainable export performance in the China market it requires a more discriminating choice of distribution mode and a substantial ongoing investment in distribution relationships and brand marketing support.

Even for those wine businesses with a good business plan and exercising discipline in its implementation, selection of a distribution partner for the China wine market is a particularly difficult assignment. The, often overwhelming, number of potential prospects; the struggle to extract sufficient due diligence information from them; and lacking the insider knowledge to judge the relevance and business value of their China personal connections and networks means that the usual filtering and qualifying processes don’t work very effectively.

It is evident that a well designed importer/distributor matching service could add value by lowering one of the most significant barriers to growth and sustainability of South Australian premium wine exporters. However specification of such a service is beyond the scope of this report.

And a last word about common distribution pitfalls!

Figure 12. Distribution pitfalls

<table>
<thead>
<tr>
<th>Pitfalls</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Don’t let your importer register your brands! Own your I.P.</td>
</tr>
<tr>
<td>• Beware being ‘played’ – first order then no follow up</td>
</tr>
<tr>
<td>• Be careful before hiring a ‘brand ambassador’ in China. This can be a good idea, but often fails in practice</td>
</tr>
<tr>
<td>• Don’t overspend on visits. Mid-range hotels / train travel / Chinese restaurants</td>
</tr>
</tbody>
</table>

Source: Campbell Thompson, *China Wine Market Revealed*, WFA Wine Outlook Conference 2012

2.6 Chinese Government influence on the wine market

Governments in China at the national and the provincial level can determine the future direction of the wine market not only through the usual alcohol public policy measures but also through their ownership of local wine producers and control of purchasing policies of state owned enterprises.

“Many policy levers are available to influence market outcomes, including direct financial support to local industry, foreign ownership regulations, taxes and tariffs, and public edits designed to sway the alcohol consumption habits of Chinese officials, businesses and individual consumers.”

*Rabobank Mind the Gap*, 2012

Customs procedures and the arbitrary changes which occur are a significant cost impost on premium wine exporters, especially those not represented by professional wine importers/distributors.
Counterfeiting remains a serious problem in the China market due to the Government’s apparent inability to enforce the IP protection laws that exist. China experts suggest that this challenge will gradually abate as local brand IP grows in importance and with it the incentive for stronger enforcement efforts. In the meantime wine exporters should pay particular attention to trademark registration – before entering the market – and taking every precaution to protect their brand whilst in the market.

There has been speculation that at some future juncture Government policies will become more supportive of local wine producers in their strategies to compete more successfully with imports at the premium end of the market.

The implication for SA wine exporters is that they need to factor into their risk appetite the possibility that trading conditions in the wine market can change quickly as a result of a Government policy change or edict, for example the austerity decree of late 2012.

2.7 Wine imports

Since 2004 wine consumption in China has increased from 489 million litres to 2,070 million litres in 2012. Local wine production, while dominating the market in terms of sales volume, is not expanding as fast as the market and the product range is not deemed suitable to meet the disproportionate increase in demand for prestige wine.

Consequently imports have grown more rapidly to account for 25% of total wine consumption value, representing 399 million litres valued at USD $1,620 million (Source: Wine Australia, China Market Guide)

The main origin countries of those imports are shown in table 1.

Table 1 China wine import volumes, litres, by country origin

<table>
<thead>
<tr>
<th>Exporting country</th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>335,891,861</td>
<td>384,505,914</td>
<td>399,329,657</td>
<td>100</td>
</tr>
<tr>
<td>France</td>
<td>97,307,278</td>
<td>136,196,975</td>
<td>147,471,830</td>
<td>36.93</td>
</tr>
<tr>
<td>Chile</td>
<td>48,903,305</td>
<td>51,858,739</td>
<td>69,562,734</td>
<td>17.42</td>
</tr>
<tr>
<td>Spain</td>
<td>69,505,663</td>
<td>76,797,125</td>
<td>59,661,082</td>
<td>14.94</td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td><strong>52,320,517</strong></td>
<td><strong>44,183,200</strong></td>
<td><strong>42,696,340</strong></td>
<td><strong>10.69</strong></td>
</tr>
<tr>
<td>Italy</td>
<td>30,908,534</td>
<td>30,308,360</td>
<td>28,784,677</td>
<td>7.21</td>
</tr>
<tr>
<td>USA</td>
<td>13,353,141</td>
<td>15,555,181</td>
<td>15,513,848</td>
<td>3.88</td>
</tr>
<tr>
<td>South Africa</td>
<td>4,618,115</td>
<td>5,581,112</td>
<td>7,041,106</td>
<td>1.76</td>
</tr>
<tr>
<td>Portugal</td>
<td>3,759,226</td>
<td>6,546,262</td>
<td>6,261,099</td>
<td>1.57</td>
</tr>
<tr>
<td>Argentina</td>
<td>3,088,114</td>
<td>4,064,606</td>
<td>4,686,411</td>
<td>1.17</td>
</tr>
<tr>
<td>Germany</td>
<td>4,274,640</td>
<td>3,295,743</td>
<td>4,230,885</td>
<td>1.06</td>
</tr>
</tbody>
</table>

Source: World Trade Atlas

However the above statistics include bulk wine as well as bottled wine. Bulk wine shipments are particularly volatile from year to year and in sourcing between origin countries, refer figure 13 sourced from the Rabobank article *China – Mind the Gap*, May 2012.
Statistics on bottled wine imports are more relevant for this report and, even more so, the high value segment of bottled wine imports.

The December 2013 data for bottled wine imports shows an import volume of 279 million litres valued at $1,382 million. Table 2 records the origin country shares.

<table>
<thead>
<tr>
<th>Origin</th>
<th>Volume Litres, million</th>
<th>Volume share %</th>
<th>Value USD million</th>
<th>Value share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>129</td>
<td>46.2</td>
<td>658</td>
<td>47.6</td>
</tr>
<tr>
<td>Australia</td>
<td>36</td>
<td>12.9</td>
<td>226</td>
<td>16.4</td>
</tr>
<tr>
<td>Chile</td>
<td>26</td>
<td>9.3</td>
<td>100</td>
<td>7.2</td>
</tr>
<tr>
<td>Spain</td>
<td>30</td>
<td>10.7</td>
<td>91</td>
<td>6.6</td>
</tr>
<tr>
<td>Italy</td>
<td>20</td>
<td>7.2</td>
<td>90</td>
<td>6.5</td>
</tr>
<tr>
<td>USA</td>
<td>13</td>
<td>4.7</td>
<td>74</td>
<td>5.4</td>
</tr>
<tr>
<td>Argentina</td>
<td>4.5</td>
<td>1.6</td>
<td>22</td>
<td>1.6</td>
</tr>
<tr>
<td>South Africa</td>
<td>4.6</td>
<td>1.6</td>
<td>22</td>
<td>1.6</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1.9</td>
<td>0.7</td>
<td>20</td>
<td>1.4</td>
</tr>
<tr>
<td>Germany</td>
<td>3.4</td>
<td>1.2</td>
<td>19</td>
<td>1.4</td>
</tr>
<tr>
<td>Portugal</td>
<td>4.4</td>
<td>1.6</td>
<td>18</td>
<td>1.3</td>
</tr>
<tr>
<td>Rest of world</td>
<td>7.4</td>
<td>2.7</td>
<td>42</td>
<td>3.0</td>
</tr>
<tr>
<td>Total</td>
<td>279</td>
<td>100</td>
<td>1382</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Wine Australia, China Wine Imports Report

The change in the value of bottled imports over the latest 12 months period is shown in figure 14.
Figure 14 Bottled wine imports to China, value USD — year ending December 2013

Source: Report by Wine Australia winefacts, from Global Trade Atlas data

Unfortunately up to date and reliable data on price segment breakdowns of imported bottled wine in the China market is not available. However Wine Australia have estimated that in 2012 the high value (equivalent to AUD $67.50 or more per 9 litre case) segment of total bottled wine imports was 8.4 million cases.
3. Australian wine sales performance in the China market

Australian wine has been successful in capitalising on the rapid growth in imports to the China wine market.

Over the last 5 years, the compound annual growth rate (CAGR) of total Australian wine exports for the China (PRC) market has been 20% for volume and 25% for value. The same measure for Hong Kong has been 8% and 16% respectively. This is a remarkable rate of growth that has catapulted China into the number four volume ranked destination for Australian exports and the number one destination for Australia’s high value (more than $67.50 per case) exports.

However bulk wine exports are included in these total export statistics and are notoriously volatile, so that it is more useful for this report to focus on data showing exports of bottled wine.

Australia, with 13% of volume and 16% of the value of bottled imports, has achieved the second highest share of the China market, behind the market leader France.

It is relevant for this report to observe that the 2009 to 2012 volume CAGR, at 35% for the high value segment of Australian wine exports, was even higher than for exports generally.

Table 3 Australian wine export performance to China

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2009</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exports</td>
<td>12,150</td>
<td>27,810</td>
<td>43,987</td>
<td>37,000</td>
</tr>
<tr>
<td>Bottled exports</td>
<td>8,784</td>
<td>18,648</td>
<td>35,258</td>
<td>32,868</td>
</tr>
<tr>
<td>High value exports</td>
<td>1,314</td>
<td>2,819</td>
<td>7,047</td>
<td>6,323</td>
</tr>
<tr>
<td>High value share of bottled exports, %</td>
<td>15.0</td>
<td>15.1</td>
<td>20.0</td>
<td>19.2</td>
</tr>
</tbody>
</table>

Source: Wine Australia

The data shows that Australia’s growth in high value exports has outpaced that of total exports (excluding bulk) to account for 19.2% of Australia’s bottled exports to China. A more detailed insight is provided by the analysis in the course of the WFA Expert Review in 2013.
These high value exports to the China market are a standout relative to Australian wine's overall export performance. 39.2% of export volume to China is shipped at $5 or more per litre (AUD FOB values) whereas the average for all exports is only 10%.

Moreover 11.6% of export volume to China is shipped at more than $10 per litre ($90 per case) compared to an average of 2% for all exports. A breakdown of the above $10 per litre exports reveals that China is the number one Australian export destination for every price bracket from $10 – 11.99 up to $50 and above.

For geographical insights, China customs clearance data for Australian bottled wine imports, refer figure 7 reproduced below from Appendix 9.3, suggests that more of the high value Australian imports are destined for Shanghai, Fujian and other provinces/cities.
Australian wine penetration into Fujian and Shandong Provinces

The results for Fujian province and Shandong Province reveal strong volume penetration and attractive price ranges for Australian wine. The ranges of average imported Australian bottled wine price are 9 to 10 US dollars and 10 to 11 US dollars in Shandong and Fujian province respectively. Together the two provinces account for the destination of 16% by volume and 17% by value of Australian bottled wine clearances.

Shandong Province
According to Figure 8 in Appendix 9.3, France with around 1.7 million litres of wine and 33 US dollars of average price is the largest bottled wine player in Shandong province both in volume and in price. Australia following France is in the second place with around 0.7 million litres and average price of 9.1 US dollars per litre in the sixth place in average price ranking. Australia is followed by Spain (around 0.4 million litres and 5.3 USD/Litre) and Chile (0.2 million litres and 3.89 USD/Litre). Average prices of other main exporter players like New Zealand, and the US are above 10 dollars.

Fujian Province
Figure 9 in Appendix 9.3 shows French wine (1.4 million litres) dominating the wine market in Fujian province with average price of 179.4 USD/Litre and 1.37 million litres of wine in total accounting for about 18% of the wine market share in Fujian province, far above all the other suppliers. Australian wine is in the sixth place in volume and the second place in average price with around 0.46 million litres of wine and average price of 10.3 USD/Litre. France and Australia are the only two wine suppliers with the average price above 10 US dollars.

However in the 2013 calendar year, the growth trend for Australian bottled wines has stalled, with export volumes declining overall by 7% and high value (more than $67.50 per case) declining even

Figure 7: Australian Bottled wine imports to main provinces/cities in China from Oct. to Dec.

Source: China customs data December quarter 2013
more at 10%. If the comparable 8% growth in high value exports to Hong Kong is taken into account, the outcome for China and Hong Kong combined is ameliorated to a decline of 5.7%.

Wine Australia (WEAR report January 2014) attributes the decline to the austerity measures introduced by the Chinese Government in late 2012. In support of this assessment, Wine Australia cites data showing that most other exporting countries of bottled wine experienced a decline - with France affected most.

Nevertheless there also may be other causes as the China wine market matures. Some of the “gold rush” enthusiasm that has been propelling the supply push into the market may be waning. One indicator supporting such a view is that for the first time the number of Australian exporters to China fell, albeit slightly. Wine Australia analysis (WEAR report January 2014) of exporters to China also reveals the high level of churn in exporters, illustrating the high degree of “one-off exports” to China. Refer to section 2.5 for discussion on the vulnerability of this route to market.
4. Future Prospects for Australian premium wine

Market research indicates that Chinese consumers of premium imported wine are prepared to pay high prices for Australian wine with the required credentials. 78% of the survey respondents were prepared to pay a maximum price of more than 150 RMB for Australian wine, roughly comparable with European competitors. However, for wines priced above 300 RMB, willingness to buy Australian wine was substantially less than its European competitors.

**Figure 16. Consumer price segment preferences by country of origin**

Source: Wine Intelligence, *Who will be the winners in China’s “Wine Market 2.0”?* February 2012.

Clearly the China market is receptive to high priced Australian wine, but the very high historical growth rates for exports of high value Australian wine are a questionable basis for projecting future export growth. The dramatic growth reversal of the last 12 months is a vivid illustration of how misleading linear extrapolation of historical (peak?) growth rates can be.

On the other hand the last 12 months export performance of a 5% decline in high value exports to the combined markets of China plus Hong Kong is equally unlikely to constitute the basis for projecting future exports. Special factors such as the austerity decree, inventory adjustments and currency realignments may be creating short term volatility in the shipments data.

All wine industry commentators expect the China wine market to maintain strong growth, driven by the expansion of a wealthier urbanised middle class. However it can be assumed that as the market matures and the growth in imported wine is increasingly attributable to new consumers, while at the same time brand competition becomes more intense, then demand will shift down wine price points. Consequently the future growth rate for high value wine, while still strong, will subside from its 2009 – 2012 levels.

If Australian high value wine retains its current competitiveness then exports should grow at a similar rate to the China market demand for high value wine. The factors that will bear on Australia’s competitiveness are:
Positives

- Increasing recognition of authentic (as distinct from contrived) value as the market matures
- Formal distributors increasing their market reach, benefitting the larger and more heavily invested wine exporters
- Improving brand awareness in the market, benefitting wine brands with strong provenance, channel presence and promotional support
- Australian dollar falling in value against the RMB and some competitor suppliers

Negatives

- Market growth will be strongest in price points below the high value segment
- Informal distribution platforms will have diminished market reach (Australian export volumes heavily reliant on informal distribution)
- “Supply push” exports will find it more difficult to secure importers
- Weak brands will be subject to greater price competition
- Competitors e.g. New Zealand, Chile, have a pricing advantage due to Free Trade Agreements

It is challenging to foresee how those competitiveness factors might play out, so for the purposes of growth projections it will be assumed that Australia’s competitiveness remains unchanged.

A growth scenario (WFA Expert Review Exhibit 27) of an additional 2 million cases by 2017 for total Australian wine exports to China has been developed by Wine Australia based on 2012 growth rates and current competitiveness. Of this, 385,000 cases would be high value growth if all growth was bottled and the 19.2% ratio of Australian high value to total Australian bottled exports to China in 2013 remained unchanged.

An alternative speculative scenario would be to project the 2013 bottled import market of 28 million cases to increase to 40 million cases by 2017, representing a compound growth rate of around 10% per year, a substantial slowdown on historical growth rates. A 40 to 50 million case bottled import estimate for 2017 has been frequently cited by China wine market commentators. If Australian shares of the bottled total and the ratio of high value exports likewise were maintained at 2013 shares, then the growth projections for additional Australian bottled exports and for additional high value exports would be 1.5 million cases and around 300,000 cases respectively.

The projections indicate that the export growth opportunity for high value Australian wine – that is exports at price points where SME producers can be sustainably profitable – is less than an extra 500,000 cases per year by 2017.

Of course in addition to this, the growth opportunity for less expensive bottled Australian wine is significantly greater, at around 1.2 to 1.6 million cases based on the two scenarios above. The distinction between the two types of growth potential is that the lower price wine export opportunity is more suited to wine producers of larger scale or to traders who can secure opportunistic supplies. In the marketplace these wines will earn lower margins due to more intense competition and, where their route to market is reliant on the obscure market distribution described earlier, their market access and sales channels will be under threat from a maturing market.
Note that these projections would have been much higher if the faster growth rates of the 2009 to 2012 period were utilised – a cautionary warning about the need for exporters to closely monitor marketplace performance and to revise sales expectations and strategies as circumstances change.

These projections suggest that the scale of the China wine market growth opportunity for Australian high value wine is somewhat less than some of the more enthusiastic advocates are proclaiming.

As concluded in the WFA Expert Review, page25

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China is the bright light but unfortunately still small—volume is up 144% (26 million litres) but is still just 6% of total export volume. The value story is better, up 333% ($186 million) to $241 million and 13% of total export value. A continuation of this growth will help the industry but has limits:
  • Excluding China the value of wine exports fell by $1,336 million from 2007 to 2012. The increase in exports to China mitigated $186 million just 14% of this fall
  • Over half ($97 million) of the increase in exports to China came from A and B wines of which there is limited supply
  • Australia is the second largest exporter to China (almost 40% the size of France by value). In the last year imports of wines from Spain, Chile, Argentina, US, and South Africa grew at similar or higher rates."
``` 

Source: Wine Australia; analysis

So while for an individual wine business the China market may well be the most attractive export prospect, for the Australian wine category the China opportunity is not large enough nor possibly secure enough to restore sustainable profitability and resolve supply imbalances. Also as noted above high value (A and B grade) grape supply is inelastic as is provenance generally and requires substantial investment and lead times to expand supply.

Therefore it would be unwise to devote all of the Australian category’s marketing effort into the China market and this conclusion is reinforced by recognition of the China market vulnerabilities identified earlier in this report.

The implication for business development strategies of both individual wine exporters and the Australian category is the necessity to temper their justifiable enthusiasm for the China opportunity with measured diversification into other export markets with growth prospects.
5. Export model alternatives for the China wine market

Over the last few years there have been an almost infinite number of modes by which Australian wine has found its way into the China market. Some of those transactions have been motivated by non-commercial objectives such as qualifying for business migrant visas.

Many transactions have been purely a one-off trading transaction, lacking any ongoing commitment by either party to the export transaction. On the export side supply surplus has been a driver, on the importing side a voracious demand coupled with a fragmented and poorly informed market created an opportunity for profit.

For the reasons outlined in this report, the one-off opportunistic export transactions will become more difficult and less profitable, although some opportunity will always be there for the smartest traders.

Since this report is targeted to SME wine businesses whose objective is sustainable exports with acceptable risk and financial returns, this review will focus on export models that are consistent with that objective. Most of these businesses, because of their small scale and therefore high cost structures, will be in the premium (high value) wine business.

However, a prerequisite for success in the premium wine business is a compelling brand story. That brand story has to be based on authentic aspects of the wine’s origins, especially place and people, that will be valued by consumers. Without a genuine and engaging brand story, a wine business will struggle to reach and hold the price points of a premium wine. This is true for both the domestic and export markets. But export markets have a further requirement to modify the telling of the brand story to better suit the specific consumer cultures of each market, and usually it is not feasible to translate to an export market unless the brand story has traction in the domestic market.

The key factors that will determine the most appropriate export model by which to tackle the China market include:

- The business objective
  - Time horizon
  - Sales volume (scale)
  - Profitability
  - Brand reputation
  - Ownership and control issues

- Risk appetite
  - Financial loss tolerance
  - Cash flow sensitivity
  - Diversification across markets
  - Intellectual Property (brand)

- Business capabilities
  - Financial resources for market entry investment, brand support
  - Cultural and language competencies
  - Marketing expertise
  - Relationship development skills
  - Travel time budget
• Wine offer
  o Provenance (brand credentials, brand story)
  o Varietals, styles
  o Availabilities
  o Packaging
  o Price points

The specific combination of the above factors that constitute the profile of a prospective exporter will determine which of the export models listed below is the best strategic fit for that particular exporter.

Export models that might be considered include:

**Australian based export agent**

- This model is the simplest, least risk, although expect lower prices for the wine business since the agency undertakes all the logistical responsibilities and risks/reward of export.
- The model may encompass formal ongoing arrangements with a professional wine export agency, or informal ad hoc purchasing e.g. from Cellar Door by third parties who then undertake export.
- Limited sales potential, no brand control, no market access security.

**Non wine trade buyer/broker in China**

- Buyer or broker with non wine business interests, typically with little wine knowledge and no access to normal wine sales channels, but usually has ability to place the wine through contacts or an outsourced network.
- This model appeals to the prospective exporter since usually requires minimal market investment by the Australian wine business. Often sales territory exclusivity is not required.
- No transparency regarding destination or final customer for the wine. Brand risk. Repeat business unpredictable, growth potential limited, however no financial risk since payment typically in advance.

**Wine buyer/broker in China**

- More traditional model whereby the importer is involved with the wine trade, has wine knowledge and access to normal wine sales channels
- Many variations in this model, the buyer may be an owner of restaurant or hospitality businesses (on trade); the buyer may operate a chain of supermarkets (off trade); the buyer may have an online platform (direct to consumer); or have some interests in wine that have enabled the development of a network for wine sales (“wine club” concepts).
- The advantage of this model for the exporter can be higher prices (less intermediary margins) and minimal marketing effort required. Depending on the strength of the relationship between the exporter and the importer the security of this route to market can range from strong to tenuous. Greatest export sustainability risk is dependence on a single individual and their business fortunes. Exclusivity may be required.
- Better transparency regarding destination and final customer for the wine although detailed sales reporting is rare. Exporter can lose control of brand IP especially if export is buyers-own-brand. Export sales growth potential capped by size of buyer’s network and financial capacity
to expand. Financial risk is variable although part (at least) advance payment mitigates. Higher comfort factor for exporter because buyer familiar with wine culture and language.

National wine distributor agency

- The gold standard for distribution, a full service importing, logistics, multi channel distribution, marketing and sales organisation with national reach. Unmatched sales channel access for an exporter but his brand may be overshadowed by more compelling competitor brands within the distributor portfolio.
- The few national distributors in China already have very comprehensive and high status portfolios so this distribution avenue is closed to all but the most remarkable brand prospect.
- Anyway the degree of exporter commitment and marketing support resources required for admittance and for sales performance is quite high. Exclusivity will be required.
- On the other hand route to market, brand reputation and financial risks are the lowest possible in the China market.

Regional wine distribution agency

- Similar to the preceding model but with a more focussed geographical footprint, may be several provinces, a single province or a few selected cities. Exclusivity will be required for the regional territory.
- Still difficult for new market entrants to join list since many wineries from all countries clamouring to get on board. Strong brand credentials and evidence of commitment are necessary requirements.
- Due diligence by exporters of the portfolio credibility, brand management and sales capability of regional distributors is essential, especially for those who are startups or pioneering wine distribution in tier 3 and more remote cities.

Joint venture with distribution network company

- Joint venturing between a Chinese business that has an established distribution infrastructure with a wine exporter is a different model. For example food distribution can complement wine distribution.
- The joint venture arrangements may extend to equity interests in one or both of the companies. The joint venture arrangements would specify the wine distribution obligations and performance targets.
- Negotiation of such a joint venture would be a formidable process, with significant costs but would offer substantial sales potential to an exporter. Also to be effective the exporter must commit to an ongoing investment in relationship management of the joint venture partners.

Establish own importing company

- An exporter could establish his own importing company in China. He could do so to import and distribute only his own brand or in concert with a group of complementary Australian brand owners.
- The importing company might also incorporate some joint venture aspects with a Chinese business person who could provide useful contacts.
- The advantages of this model are control of all aspects of route to market, brand management, sales channel mix and sales. The disadvantages are capital outlay, staff
recruitment challenges, high cultural and language capability requirements, and lack of local contacts to access sales channels.

**Establish own retail outlets**

- A variation on the proceeding model is to go the extra step of establishing retail outlets in China. There are examples of Australian wineries who have taken this path and they are reported to be successful. Again this could be for a single brand or a portfolio of complementary brands, it could also be in association with a Chinese partner.
- Most likely such a model would be part of a broader direct to consumer distribution platform where the retail outlet performs brand development and an online order fulfilment role as well as retail sales.
- Capital outlay and startup costs would be too daunting for most exporters. However this hurdle could be overcome with Chinese investment in the exporter wine business, see below.

**Chinese investor in an Australian wine business**

- There is an increasing incidence of Chinese investment in Australian wine assets. Where the investment is an equity share with the intent of involvement in the wine business, the investment can bring considerable China market export capability and access advantages.
- The investor invariably brings to the table understanding of how to do business in China, a network of contacts that constitute a route to market, financial capability to invest in China market distribution assets, and often an acute knowledge of how to adjust the export wine offering to better meet the market requirements.
- Nevertheless only a limited number of Australian wineries are likely to meet the criteria for Chinese investors and/or there are few winery owners prepared to relinquish ownership and control for a demanding commitment to a partnership relationship.

The case study interviews recorded in chapter 7 illustrate some of the models described above.
6. Role of Hong Kong

Hong Kong can offer an easier route to market than direct export to mainland China.

Wine Australia has identified that a substantial quantity of more expensive Australian wine exports to Hong Kong have mainland China as their final destination.

“Due to the tax differential between Hong Kong and China, a large volume of wine enters (especially high end) through Hong Kong and then is moved into China. For example, in 2012, a total of 5.5 million cases of wine were imported into Hong Kong – a market in which an estimated 1 million cases were consumed in 2012. Therefore to get a complete picture of the total market for imported wine in China – imports through Hong Kong need to be included.”
Wine Australia winefacts, *China and the Hong Kong market*, June 2013

For the more risk adverse and small premium exporter, Hong Kong can be an alternative export destination. The logistics, communications and business practices are all easier. However to secure a reliable high performing distributor is still a challenge. And the sales volume potentials are more limited, although this may not be incompatible with the sales aspirations of many small premium exporters.

The other potential advantage of Hong Kong for the premium exporter is that it can provide valuable brand building exposure to the mainland market, given the high levels of tourism traffic into Hong Kong from the mainland.
7. Case studies of South Australian wine exporters to China

A cross section of exporters was interviewed as a follow up to the China wine market involvement survey undertaken by the South Australian Wine Industry Association (SAWIA). These case studies cover the South Australian regions of Barossa Valley, Clare, Fleurieu, Langhorne Creek, and McLaren Vale with the exporters ranging in annual China market sales from less than 1,000 to more than 20,000 cases of bottled wine.

The detailed results of that survey are recorded in Appendix 9.1 to this report.

The major observations derived from the interviews can be summarised as:

- A high incidence of “accidental” distribution partnerships
- Very frequent approaches in Australia made by Chinese persons offering to represent the winery in the China market
- Critical importance of personal relationships in successful distribution arrangements
- Personal networks of Chinese importers are a major determinant of distribution reach
- Many distribution arrangements are in flux, are achieving export sales but are not suited to the longer term export strategy of the business. Interest in better distribution, and in possible Chinese investment
- The business development strategy for development of the China export market commonly defaults to the Chinese importer/distributor
- Market visitation with associated tasting activities was the dominant marketing activity
- Several exporters taking a cautious and selective approach to growing export sales in order to protect their brand
- Most export to Hong Kong as well as to the China mainland, and there are significant examples of distribution penetration beyond mainland tier 1 into tier 2 and even tier 3 cities.
- Most exporters are receptive to changes in future export strategy to improve sustainability and growth

A summary record of each individual exporter interview follows.

China wine market Case Study 1

Wine producer A, a 10,000 to 20,000 case Clare region winery, has been pursuing export opportunities for many years with limited success, primarily due to the business focus being on premium wine and the resistance from export markets to the correspondingly high price points.

The producer has had a long term interest in China market but had no formal business plan for that market.

The producer had several approaches from Chinese visitors to Australia including a small one off sale by a business visa applicant. They experienced three false starts, either due to lack of follow up by the Chinese or because the “opportunities” didn’t offer sufficient benefit to the company to justify investing time and $.

Subsequently the producer was approached by a wealthy Chinese businessman who had been a long time Australian resident and had become a knowledgeable consumer and enthusiast for Australian wine that he pursued as a business interest upon his return to China. The businessman had a strong business network in China that he was able to utilise for wine distribution. Although his business network was not involved with wine per se and hence was not a readymade route to market infrastructure, it did include some hotel and hospitality connections. So the role this businessman took on was to become the importer and developer of a wine distribution infrastructure in China for a select portfolio of Australian premium wines.
This Chinese importer wished to extend his small Australian wine portfolio and for reasons unknown, but probably a recommendation from one of the existing Australian producers in his export portfolio, contacted wine producer A.

The visit of the Chinese importer to the winery resulted in a strong personal connection being forged and this was as much due to the openness and welcoming attitude of the producer A family as it was to any commercial logic.

Producer A has continued to invest in strengthening the relationship between the extended families of the Chinese importer and of the producer with reciprocal visits between China and Australia despite this not bringing immediate business payoff in terms of sales increase.

Producer A has now been in the China market for 4 years, with annual sales in the hundreds of cases over each of the last 3 years, although in 2012 sales showed a decline from the previous year. However importantly, these sales were through known and secure channels (predominantly on-premise) and were exported at FOB prices equivalent to those applicable to domestic distribution. Also the sales mix covered most of Producer A’s wine range, rather than being just the top end red or only low price buyers own brand wines.

This favourable brand and profitability performance and apparent distribution sustainability can be attributed to the long term premium wine business development goals of the importer (contrasted to the alternative of maximising short term sales and profits from opportunistic wine trading) and to the brand building investment by producer A who travels regularly to China to showcase the brand and promote to trade and select consumers.

It is noteworthy that the importer controls the route to market decisions, the promotion support, and is the source of China market culture and language capability. That is, the China sales geography, the distribution partners, the sales channels, the promotional effort, the sales deals negotiation, and the logistics requirements are all determined by the importer. This is of great advantage to Producer A in that they do not require China market specific competencies in their own business.

On the other hand Producer A is totally dependent on the importer and has little influence over business development strategy and performance in the China market. Such dependency can be typical of export agency arrangements in other markets as well, but not to the same degree as the China market due to its capriciousness and opaqueness.

Producer A’s future intentions for the China market are to continue to invest in the importer and associated distributor relationships; protect and grow the brand franchise; innovate as necessary (especially packaging) to better match China market opportunity; continue with regular visits to the market and hosting visits to the winery; and seek a gradual increase in sales that are sustainable.

Producer A identified the China market challenges as
- Changes and uncertainty associated with China customs clearance requirements
- Difficulty in vetting potential distributor prospects
- Sufficient commitment to the nurturing and deepening of personal relationships that extend well beyond business interests
- Patience

Summary Producer A China market status

China distribution acquisition – accidental (unplanned), Chinese approach to Producer A
China distribution model – personal network of China based wealthy individual, took on role as importer and recruitment of distribution partners
China market business development strategy – determined by Chinese importer
China market culture and language capability - reliance on Chinese importer
China export sales – Producer brand premium wine at profitable prices, annual sales less than 1,000 cases. Geographic penetration is entirely into tier 1 cities.
China market future strategy – brand building, strengthening distribution, product offer innovation, cautious expectations re sales growth.
China wine market Case Study 2

Wine producer B is a highly rated circa 50,000 case Langhorne Creek winery with longstanding success in exporting its brand into a range of export markets.

Producer B was alert to the China market opportunity so was receptive when approached by an Australian based Chinese person who demonstrated his capability to import into China via three Hong Kong distributors. Several export orders were shipped successfully, however eventually a problem arose over an outstanding payment from the Australian based importer.

This situation necessitated Producer B renegotiating the importing arrangements directly with the Hong Kong distributors, necessitating a substantial investment of time and expense. The investment was justified in the eyes of Producer B by the potentially superior performance of a distributor who, as a large Government owned food processing company, had exceptional access to the on-premise channel for wine. Producer B did however have to concede exclusivity for a large mainland sales territory.

It is evident that in these circumstances, much of the Producer B marketing strategy for the China market is determined by the Chinese distributors, who in this instance have well established and very extensive distribution infrastructure without the need to rely on a plethora of sub distributors.

The Hong Kong base of the distributors also has been advantageous for Producer B because he has not required in his own organisation the China market culture and language competencies that are necessary for negotiating business in mainland China.

Producer B has adopted a conservative growth objective for his exports to China, recognising the imperative of protecting his brand and also a limited capacity to fund the working capital requirements of rapid growth. As well the distribution relationships are still a work in progress and require further investment of education and promotional effort by Producer B to fulfil their potential.

Producer B’s annual export sales to China over the last three years have been steady in the low thousands of cases. Price points of these bottled and producer branded exports are in the mid range, predominantly between $68 to $90 FOB. Producer B’s product range in China is limited to about half of the domestic range.

Although circumstances overwhelmed the route to market planning process of Producer B, his original China market business plan strategy was to focus on the most developed wine markets of the Hong Kong and Shanghai regions, with the ideal distribution target being a complementary food distribution business.

Producer B provides promotional support to his distributors via a percentage of invoice value allowance, however at this stage this funding is expended entirely at the discretion of the distributors. The dominant promotion activity by the distributors is tastings, since trial is considered the most effective for the target consumers. Substantial commitment made by Producer B in hosting inbound visits to provide personal bonding and memorable experiences for the distributor relationship, although producer travel to the China market has been limited but is likely to increase in future.

The greatest challenge of the China market for Producer B is the time and cost of complying with changing labelling requirements and associated documentation. Also the geographic vastness of the China market is daunting for a winery the size of Producer B and therefore will likely require a narrowing of focus in future market development.

Producer B’s future intentions for the China market are to pursue moderate sales growth, driven by improved distributor performance in response to increased Producer B investment in the relationship. The emphasis will remain on the on-premise channel, with the direct sales channel (internet) perceived as being too risky to the brand reputation.

Summary Producer B China market status

China distribution acquisition – accidental (unplanned), Chinese approach to Producer B. Subsequent renegotiation necessary at instigation of Producer B.

China distribution model – Formal distribution agreement with exclusivity clause. Distributors are major Government owned Chinese national companies. Food distribution is a primary business activity of the distributors and hence offers complementarity for wine distribution.
**China market business development strategy** – largely determined by Chinese distributors

**China market culture and language capability** – mostly reliant on Chinese distributors, although Hong Kong domicile of the distributors being more westernised is easier for business negotiations and relationship building.

**China export sales** – Producer brand premium wine at profitable prices, annual sales in range 1,000 to 2,000 cases. No bulk or opportunistic sales. Geographic penetration is solely Hong Kong.

**China market future strategy** – brand custodianship, support distribution partners, status quo product offer, gradualist ambition re sales growth target of 3,000 to 5,000 cases.

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**China wine market Case Study 3**

Wine producer C is a highly rated circa 20,000 case Barossa winery exporting to several markets including China. The producer has experienced a high level of involvement with the China market.

Initially exports to China were through an established Chinese importer who during a visit to the Barossa approached the winery. This importer relationship was working well but a subsequent approach from, and a friendly reception to, Australian based Chinese investors resulted in a change in ownership of the winery with consequential changes in distribution.

The new owners have a long term vision to sell prestige wine into the China market but have emphasised further enhancement of the brand reputation in the domestic market prior to assertively pursuing the China market opportunities. In order to optimise the Producer C prestige wine offering, they are refining the product range to make the most of excellent estate vineyards, gaining recognition through third party endorsements and adjusting pricing to correspond with the evident value proposition.

For the Chinese company owner of Producer C, wine represents only a quite small addition to their business interests and it is assumed that the Australian wine acquisition confers some strategic complementarity, especially the prestige benefit.

For Producer C the Chinese owners provide a fully integrated route to market, that is they perform the importer, distribution and retailing roles. The geographical focus is Southern China. The importer has an office in Australia and retail stores in China. The distribution arrangement is not exclusive for the whole of the China market – it does not preclude other distribution arrangements where there is absence of conflict.

As yet Producer C has not been involved in formalising the business development strategy for the China market. It is apparent that the new ownership is still coming to terms with the business limitations arising from the typical seasonal variability in the vineyard and the usual constraints in the wine production process. This learning process for the new owners is lengthening the time taken to become launch ready for the China market.

Producer C relies on the interstate company office for Chinese culture and language capability, so this has not been developed at the winery.

Marketing and promotional support also is controlled by the corporate office interstate.

Producer C exported less than 1,000 cases to China in 2012 although sales of bulk wine in previous years were greater, reflecting the beginning of a shift in emphasis towards exports of own brand premium wine at high price points. The destination of the exports included Hong Kong and the Tier 2 cities of mainland China.

The challenge for Producer C has been recalibrating the business to implement the “premiumisation” strategy of the new ownership and to do so within the limitations of constrained resources and uncertainty about the detailed China market strategy. It is expected that persistence and relationship building will determine success in the China market.

Producer C advocates major Government and industry support to educate Chinese consumers about Australian premium wine as the China market continues to rapidly evolve.

Producer C’s future intentions for the China market are to relaunch the brand as a prestige premium wine using the Chinese ownership distribution and retail networks to grow sales volumes and achieve strong margins.

**Summary Producer C China market status**
China distribution acquisition – accidental (unplanned), Chinese approach to Producer C. Subsequent sale to Chinese corporate owner.

China distribution model – corporate network of distribution and retail assets. Not exclusive so open to other opportunities.

China market business development strategy – determined by Chinese corporate owners.

China market culture and language capability – reliant on Chinese owners who have an Australian office presence interstate.

China export sales – Producer brand premium wine at profitable prices, annual sales less than 1,000 cases. Previously higher sales of bulk and buyers own brand. Geographic penetration is 60% tier 1 cities with 40% to Hong Kong.

China market future strategy – Enhance brand credentials in domestic market; prestige brand relaunch in China; leverage corporate owner’s China distribution and retail network; innovate in product offer (range, packaging), sales growth targets are defined by a long term vision and prioritise brand and margin performance over volume.

China wine market Case Study 4

Wine producer D is a highly rated Barossa winery producing more than 100,000 cases and exporting to an extensive range of markets including China. The producer has experienced a high level of involvement with the China market.

Wine producer D was an early entrant to the China market and for this reason coupled with its brand and size credentials, it was able to negotiate a formal distribution agreement with one of the top echelon national wine distributors in the China market.

Producer D’s annual sales over the last three years have grown moderately to exceed 10,000 cases of own brand wine in 2012, supplemented by significant quantities of bulk wine. However growth may have been constrained by the distributor’s inability to finance more rapid sales growth. This working capital constraint afflicts foreign owned businesses who face restrictions on borrowing from the Chinese banking system.

The wine offering from Producer D in the China market spans several product ranges and price points, encompassing both red and white varieties. Sales volumes have been skewed towards lower price point wines. While the producer’s brand reputation is perceived to be attractive it has not reached its full potential in the prestige segment of the market.

The distributor is responsible for the geographic and sales channel route to market decisions.

Producer D provides considerable marketing support, both to the distributor with a jointly funded promotion program plus Producer D direct in-market activity including market visits equivalent to 6 person weeks per year. Social media is part of the promotional mix.

Although recognising the potential of the China market, Producer D has favoured a long term view and therefore has been cautious about taking up the plethora of purported opportunities promoted by numerous unsolicited contacts. This caution has undoubtedly resulted in forgone opportunities to achieve greater sales volumes but the Producer has not been prepared to risk brand reputation damage. However it is virtually impossible for wineries to undertake due diligence and filter the relevance of Chinese inquiries due to a reluctance to disclose business information.

Producer D has completed a formal research and planning process over a period of 2 years to better specify their long term strategies for the China market.

Future intentions are to appoint a brand manager in the market, place more emphasis on the higher priced wines in the range, become more innovative in marketing strategy and packaging, strengthen retail channel presence.

General China market challenges include:

- Australian wine’s disadvantage relative to competitors e.g. Chile and New Zealand, who have Free Trade Agreements with China that lower import duties.
• The administrative cost and inefficiencies of short print runs are a significant cost impost due to China market labelling requirements.
• Government controlled entities account for a substantial share of imported wine purchases and a shift in policy, as happened recently with the austerity edict, has a dramatic impact on the wine market.

Summary Producer D China market status

**China distribution acquisition** – planned, early market entry together with excellent brand credentials enabled formal distribution agreement to be concluded with a leading national distributor.

**China distribution model** – full service agency traditional model. Opportunistic sales mostly declined to safeguard brand reputation.

**China market business development strategy** – carefully researched strategy developed by Producer D. Cautious growth to ensure long term sustainability.

**China market culture and language capability** – mostly reliant on China distributor but plan to add some inhouse capability.

**China export sales** – Producer brand wine at profitable prices, annual sales more than 10,000 cases. In addition some bulk wine sales. Geographic penetration is 70% into tier 1 cities, 10% unknown and 20% to Hong Kong.

**China market future strategy** – strengthen prestige brand credentials in China; tweak wine range offering; appoint brand ambassador in-market; increase distribution reach; more use of Chinese social media for promotion; accelerate sales growth without compromising brand integrity.

**China wine market Case Study 5**

Wine producer E is a well established strongly rated Fleurieu zone winery producing circa 100,000 cases and exporting to several markets including China. The producer has experienced a high level of involvement with the China market, with first involvement commencing about 8 years ago.

Initially exports were in response to ad hoc opportunities but in the last 2 years Producer E has been working to annual plans with a 10 year time horizon.

Producer E offers all of their domestic brand range plus buyers own brand options.

A high degree of China market culture and language capability has been developed inhouse by Producer E through employment of Chinese students and extensive time in market by the sales team.

Producer E relies on its Australian based sales team to explore opportunities within China and negotiates deals with a wide range of buyers, some of whom are focussed on wine distribution whereas others purchase wine as an adjunct to other business interests.

Producer E’s route to market therefore is based on recruitment of a network of buyers that is fluid and constantly evolving. Producer E’s sales team spend 10 to 12 weeks a year in the market prospecting for buyers and negotiating deals. Relationships are not exclusive, although deals for a single brand for a specific city for a limited time may be negotiated. The geography of the Producer E’s sales territory within China is defined by the quality of the buyer prospects, rather than designated provinces or cities. Producer E summarises their distribution solution as being pragmatic - “On the ground, deal with what works.”

Market support for the brand is provided through attendance at wine shows, hosted tastings and dinners for trade and targeted consumers.

Producer E’s annual sales have grown strongly over the past 3 years to exceed 20,000 cases in 2012, with top end wines well represented at retail price points ranging from RMB 280 to 2000. The geographical footprint of sales ranges across tier 1, tier 2 and tier 3 mainland cities as well as Hong Kong.

Producer E identified the inadequate marketing effort for Australian wine as one of the greatest challenges of the China market - the industry needs to tell the Australian wine story and why brand Australia should be first choice.

Future intentions of Producer E are to maintain the sales growth momentum by closer partnership arrangements and to explore having stock availability in the market in order to respond more quickly to a wider range of opportunities.
Summary Producer E China market status

**China distribution acquisition** – unplanned, based on discovery from market prospecting activity by Producer E. Fluid and evolving network that is sales deal driven. Any exclusivity is deal specific limited to short term.

**China distribution model** – own sales team travelling frequently in the China market to build personal relationship networks and to identify prospective deals.

**China market business development strategy** – on the ground superior market knowledge and network of contacts prospective for sales deals.

**China market culture and language capability** – strong in-house capability utilising business qualified Chinese students.

**China export sales** – Buyers own brand and bulk wine; own brand wine including a selection of prestige wines at attractive margins; annual bottled sales more than 20,000 cases. Geographic penetration is predominantly into tier 1, with some into tier 2 and tier 3 cities as well as Hong Kong.

**China market future strategy** – grow sales volumes in line with 10 year plan; maintain intensity of market visitation; strengthen Chinese partnership relationships; trial holding stock in the market.

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**China wine market Case Study 6**

Wine producer F is a highly rated McLaren Vale region winery producing circa 100,000 cases and exporting to several markets including China. The producer has an established sales history in the China market, with initial sales commencing about 7 years ago.

Market entry relied on prospecting for contacts in the market and follow up through market visits.

Producer F has identified and negotiated sales with a number of China based importers without any formal commitment and over time these have not matured into secure and ongoing distribution relationships. As a consequence current distribution arrangements are not sustainable and this is reflected in a 50% reduction in sales over the last 3 years. Therefore existing distribution arrangements would be best described as a work in progress.

Producer F has developed in-house China market culture and language capability and utilises this for labelling and shipping logistics.

The Producer F business is very lean with frugal staffing and expenses to ensure the lowest possible cost structure.

The wine range for the China market is the same as that available globally. Previous experiments with unique packaging for the China market were not successful. Brand recognition in the China market is not well developed. Export prices range from $70 to $350 per case FOB.

Marketing support is provided with bonus stock for tastings and by undertaking promotion activities whilst visiting the market.

Future intentions are to seek a distribution partnership possibly through a Chinese joint venture of some kind.

Producer F identified as impediments to success in the China market:

- confusion caused by having too many industry and Government organisations involved in market development
- difficulty in filtering the excessive numbers of Chinese wine trade “prospects” to determine who could offer genuine business potential

**Summary Producer F China market status**

**China distribution acquisition** – opportunistic, network of contacts derived from China market prospecting activity by Producer F. Several are anchored by strong relationships however they are on a small scale.
Distribution agreements with major / traditional importers have not resulted in significant sales despite these importers appearing to represent excellent potential.

**China distribution model** – own sales team travelling frequently in the China market to identify prospective importers and sales deal opportunities.

**China market business development strategy** – reliance on the Chinese importers’ distribution networks.

**China market culture and language capability** – in-house capability sufficient to service importers and close sales deals.

**China export sales** – own brand wine skewed to lower price points mixed with a healthy component of premium wines; annual bottled sales around 10,000 - 15,000 cases but declining trend. Geographic penetration is into tier 1 and tier 2 cities as well as Hong Kong.

**China market future strategy** – grow sales volumes and improve sales mix towards higher value wines; maintain intensity of market visitation; investigate Chinese partnership opportunities.

### China wine market Case Study 7

Wine producer G is a highly rated Barossa region winery producing circa 50,000 cases and exporting to an extensive range of markets including China. The producer’s involvement with the China market is more limited than for many other exporters because it has adopted a passive approach of responding to local approaches rather than initiating entry into the China market.

Producer G was approached by a Chinese importer about four years ago. For the last three years sales have been made through two China based importers, without any exclusivity commitments.

Sales have been about 1,000 cases per year, with the sales mix across the range with strong demand for the super premium wines. All wines sell for more than 200 RMB in the market. A significant proportion of the wines are believed to be moving through Chinese corporate channels, mostly as gifts. In addition sales of bulk wine have been made. Payment terms for all sales have been cash up front.

Marketing support for sales consist of sampling stock and point of sale promotional materials but no market visits. Any promotional activity in the market is the prerogative of the two Chinese distributors.

Producer G does not have in-house China market culture and language capability, although marketing staff have substantial experience in other Asian markets.

Producer G has taken a very reserved approach to the China market, seeing it as a lower priority than its other export markets. The Producer’s business planning identified China market barriers as:

- Distribution is undeveloped
- Language barrier
- Australia uncompetitive due to lack of a Free Trade Agreement (FTA)
- Market requires more wine education

Consequently Producer G concluded it is not the right time for the China market, taking into account the substantial changes that are occurring as the China wine market evolves towards a more mature market with respect to consumer preferences and occasions, and to the consolidation and professionalization of wine distribution infrastructure and sales channels.

Future intentions are to more proactively enter the China market with a strategy that aligns with Producer G’s long term business strategy. The strategy would emphasise a premium wine offering and recruitment of high performance wine distribution partner/s with access to well established infrastructure with a focus on premium brand building.

Producer G suggested that the South Australian Wine Industry Association (SAWIA) could assist South Australian wineries with a China distribution matching service, including consideration of complementary distribution and logistics; and advice on Chinese direct marketing channels and how to utilise them.

Producer G also advocated better collaborative promotion of Australian wine, narrowing the focus to a South Australian or SA regions promotion that illuminate the SA regions wine story through wine education knowledge and experiences.
Summary Producer G China market status

China distribution acquisition – unplanned, approaches from Chinese contacts in Australia.
China distribution model – two China based distributors, one in the north and one in the south of China, no exclusivity, limited market support.
China market business development strategy – determined by the Chinese distributors.
China market culture and language capability – no specific in-house capability
China export sales – own brand wine with prestige wines well represented in the sales mix; annual bottled sales around 1,000 cases. Bulk wine was also sold. Geographic penetration is predominantly into tier 1 cities, and Hong Kong with some into tier 2 cities as well.
China market future strategy – in the 5 year business plan to move from current sales model to sustainable business development model entailing brand building and secure high performance distribution assets; delaying full market entry commitment until identify distribution partner/s capable of implementing the long term plan.

China wine market Case Study 8

This case study is an account of the Chinese investment in Gemtree Vineyards, McLaren Vale. This is a reproduction of the presentation made by Andrew Buttery of Gemtree Vineyards to Workshop W04 convened by Finlaysons for the 15th Australian Wine Technical Conference on 13th July 2013. The presentation is reproduced in this report with the kind permission of Finlaysons and Andrew Buttery.

Were we looking for a partnership?

- A chance introduction to our partner through a mutual friend and fellow director
- We were looking to grow our business and improve our financial position but a partnership was not on the agenda.
- After a few hours with Mr Song he surprised me with his offer of having a JV with our family.
- Family didn’t show a lot of interest.
- My challenge was to find out more about the man and his business interests and motivation.
Timeline to a partnership

- July 2010 – first meeting
- December 2010 – second meeting with parents
- May 2011 – Meeting in China and invited Song for a second visit to inspect assets and detailed presentation on industry and business.
- August 2011 – Full day with Song and 2 family members. Agreed in principle to take next step and Paul Buttery outlined his plans to sell his shareholding to Song. Second meeting 2 days later to work thru assets for sale and asking price.
- JV became a succession plan
  - October 2011
    – continued discussions in China
  - December 2011
    – Close to finalising HOA after visit to McLaren Vale

- January 2012 – HOA signed in China
- February 2012 – Commence operation of Gemtree China business
  - March 2012 – meeting in China
  - March 2012 – Due Diligence in Adelaide
- April 2012 – Acceptance of DD but revised terms of deal
- May 2012 – Gemtree launched in Zigong – home town
- March 2013 – Settlement occurs
- April 2013 – Agreement signed for $30 million investment
Building a relationship

- Took every opportunity to get to know our partner. Proactive by hopping on a plane.
- Working thru his PA and developing relationship with her was important.
- Be yourself. Important for your partner to see the real you.
- This is a marriage so the courtship is critical and you must know how each other thinks and works and develop trust and mutual understanding.
- Lunch or Dinner meetings very important for developing relationship.
- Get to know his team so that you can build trust and this will enable more effective decision making and progress.
- Spent many hours in meetings with key management team, sharing information and providing advice.
- Be prepared for changes in management and therefore you will need to educate the next manager and rebuild a new working relationship.

Negotiations

- Never easy
- Be prepared for a few curve balls.
- Make sure you have good people in your corner.
- Heads of Agreement final stage was very challenging. Me versus a team of lawyers and managers in China. Wouldn’t recommend doing this without having some support with you.
- Be prepared to stand your ground on the matters that count.
- Expect to be challenged mentally, physically and emotionally!
- Stay sharp and don’t drink too much!
- Expect to have meetings scheduled late in the day
A genuine commitment

- After the HOA and prior to settlement, Song made a serious financial commitment to our business.
- Purchased large amount of stock and prepaid for stock in order to fund expansion of production.
- This wouldn’t have occurred without a high level of trust and commitment developed in the previous 12 months.
- I don’t believe this is a normal outcome — don’t expect this to happen.

Lost in Translation??

- Initially relied on Partners Employees for translation
- August 2011 brought in a friend to assist with translation, made a positive difference.
- There have been several occasions where the wrong message has got thru. Mainly around quantities or numbers.
- Hired a mandarin speaking PA in April 2012 and this changed the dynamics for the better.
- Took greater control, better record keeping of meetings, less pressure on myself, pick up on the mood and other internal dialogue between Song and his employees that I wasn’t hearing before.

Be prepared to embrace a blend of cultures inside your business

- We got on the front foot and hired 2 Chinese born staff 1 year before the JV was finalised.
- 6 staff from our JV partner are now working within our business with clearly defined roles.
- Expect that you will be scrutinised.
- We have made every effort to embrace these people and include them into the team.
- Make them feel at home and you will receive loyalty and commitment from them.
- Our business is different now compared to 2 years based on personnel and the new partnership.
My recommendations for embarking on a JV with a Chinese partner

- Hire Chinese born staff or engage a translator who has an affinity with your business. Do this early in the process so you are proactive and can keep ahead of the JV partner in meetings and minute taking.
- Be prepared to spend plenty of time in China – budget for this expense and treat it as an investment.
- An introduction from a mutual colleague or friend will go a long way.
- Research as much about your prospective partner as possible.
- Align yourself with as many of the management team as possible.
- Expect curve balls.
- Expect tough negotiations – start high and know your minimum sell price.

- Make your JV partner feel welcome when they visit Australia and show them who you are. – treat it as a courtship!
- Make sure you have an experienced legal and accounting team behind you with demonstrated track record with Chinese JV’s.
- Don’t let the transaction timetable drag out – unless you want it to (stay in control)
  - If you JV partner has had no international experience then expect it will be a tougher process, particularly if key personnel have only worked in China.
  - Due Diligence – stay closely involved in the process – be accessible.
The next phase

• Bedding down a working relationship
• First official board meeting May 2013.
• Appointed as Director of China operation—June 2013.
• A greater level of commitment from our partner – financially
• Determine the priorities for the next 3 years.
• Manage growth and ensure growth in profitability
• Implement new policies and procedures internally
• Continue to support the China business thru training, sales support and management support — WORK AS ONE COMPANY.
• Spend as much time with our partner as possible – 1 on 1 time in Australia is the most valuable time. Nurture the personal relationship with our partner.

Thanks

谢谢
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**Figures**

1. Asia’s economic resurgence is set to continue
2. China dominates wine consumption in Asia
3. Overview of the Chinese wine market, Health benefits
4. Comparison of percentage drinking once a month or more by occasion
5. Comparison of penetration – Tier 1 vs Tier 2 cities
6. Comparison of awareness and conversion for importing wine regions in China
7. Spend ratio >150/<150
8. Estimated timing of China cities attaining middle class incomes
9. Location of the main provinces and cities importing Australian wine
10. Internet use for wine information, China comparison
11. Online channel comparison
12. Distribution pitfalls
13. Bulk wine imports to China by major supplier
14. Bottled wine imports to China by value change
16. Consumer price segment preferences by region of origin

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1. China wine import volumes by origin
2. China bottled wine import volume, value, share by origin
3. Australian wine export performance to China
9. Appendices

9.1 SAWIA China wine involvement survey results

Introduction

The South Australian Wine Industry Association (SAWIA) in December 2013 undertook a survey of the extent of involvement in the China wine market by South Australian wineries.

The objective of the survey was to define South Australian wine producers’ scope of engagement, their business strategies and their future intentions for the China wine market.

The survey was completed by 46 respondents (7% of SA wine producers and 15% of exporters of SA wine to China) who were indicative of the range of South Australian small and medium (SME) wine producers’ experiences and performance in the China wine market. The number of respondents was not sufficient to constitute a representative sample of SA wine producers and hence the survey results cannot be used to generalise about the whole population of SA wine producers. However the survey results do provide useful insights from a cross section of wine producers that can serve as case study examples.

The limited number of respondents contrasts with the large number of SA exporters of wine to China (298 according to Wine Australia WEAR data) and the purportedly strong interest by SA wine producers in the China wine market.

Survey Respondent Profile

The 46 respondents represented total bottled sales to all markets of 1.9 million cases (17m litres) and employment of 1080, dispersed over the regions of Adelaide Hills, Barossa Valley, Clare, Coonawarra, Currency Creek, Langhorne Creek, Limestone Coast, McLaren Vale, Mt Benson, and Riverland. 30 of the 46 owned a winery with the balance relying on contract processing.

Table 1: Respondent Profile

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual production</td>
<td></td>
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<tr>
<td>Bulk only</td>
<td>&lt;5,000 cases</td>
</tr>
<tr>
<td>4</td>
<td>31</td>
</tr>
<tr>
<td>Winery reputation</td>
<td>&lt; 4 star</td>
</tr>
<tr>
<td>15</td>
<td>85</td>
</tr>
<tr>
<td>Export focus (1)</td>
<td>Minor</td>
</tr>
<tr>
<td>30</td>
<td>22</td>
</tr>
<tr>
<td>Sales price point (2)</td>
<td>Low</td>
</tr>
<tr>
<td>24</td>
<td>11</td>
</tr>
</tbody>
</table>

1. Definition of export focus categories:
   - Minor – less than 10% of sales volume and 2 export markets or less
   - Mid – 10 to 20% of sales volume and 3 to 5 export markets
   - High – more than 20% of sales volume and more than 5 export markets

2. Definition of sales (all export and domestic) price point categories:
   - Low – 50% or more priced below $68 FOB per case
   - Mid - 60% or more priced above $68 FOB per case
   - High - 60% or more priced above $68 FOB per case and more than 30% above $90 FOB per case.
Survey respondents ranged in annual production size from micro to large producers, with a predominance in the less than 50,000 case range. This profile shows that high reputation, export experienced and premium wine producers were over represented in the Survey. This is a fortuitous outcome since the goal of this report is to generate insights that can be applied by export capable SME wineries with high quality wines able to generate strong margin at profitable price points for a long term business outcome.

**China market involvement by Survey respondents**

<table>
<thead>
<tr>
<th>China market Involvement activity</th>
<th>Response Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese wine trade and/or wine media have visited the winery</td>
<td>80.4</td>
</tr>
<tr>
<td>We have exported wine to China under our own brand</td>
<td>78.3</td>
</tr>
<tr>
<td>Chinese tourists have visited my winery cellar door</td>
<td>58.7</td>
</tr>
<tr>
<td>Representative of the winery has visited China for market research or seeking distribution</td>
<td>56.5</td>
</tr>
<tr>
<td>Been requested to supply wine for China export – did not proceed</td>
<td>37.0</td>
</tr>
<tr>
<td>We have supplied bulk or buyers- own brand to a third party for export to China</td>
<td>32.6</td>
</tr>
<tr>
<td>We have received an offer from a Chinese business to invest in our wine business</td>
<td>17.4</td>
</tr>
<tr>
<td>Various other e.g. Chinese ownership, agent relationships, exhibited at trade show</td>
<td>13.0</td>
</tr>
</tbody>
</table>

*Definition of China market was Mainland China including Hong Kong.
Note multiple responses were possible for this topic.

The survey respondents showed high levels of China wine market involvement. The scope of that involvement is quite extensive, encompassing tourism, trade relationships, potential Chinese investment, as well as export sales.

Of interest is that 37% of respondents declined export requests. Lack of profitability rather than supply availability is the usual explanation given by wine producers.

**Wine sales to China by Survey sample**

Respondents’ bottled wine sales to China in 2012 ranged from zero to a high of 38,000 cases. Of the sample of 46 wineries, 28 (61%) sold less than 2,000 cases.

Total bottled sales to China in 2012 by the sample wineries were 185,338 cases, equivalent to 1.67 million litres.

**Sales territory in China**

<table>
<thead>
<tr>
<th>China sales territory</th>
<th>Response percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>80</td>
</tr>
<tr>
<td>Tier 1 Mainland cities</td>
<td>80</td>
</tr>
<tr>
<td>Shanghai, Beijing, Guangzhou, Shenzen</td>
<td></td>
</tr>
<tr>
<td>Tier 2 Mainland cities</td>
<td>57.5</td>
</tr>
<tr>
<td>Chengdu, Chongqing, Dalian, Guangdong, Hangzhou, Ningbo, Harbin, Hubei, Jinan,</td>
<td></td>
</tr>
</tbody>
</table>
Nanjing, Qingdao, Shandong, Shenyang, Tianjin, Wuhan and Xi’an

<table>
<thead>
<tr>
<th>Tier 3 Mainland cities</th>
<th>30.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any cities not listed in tier 1 and tier 2</td>
<td>30.0</td>
</tr>
<tr>
<td>Not sure of final destination</td>
<td>27.5</td>
</tr>
</tbody>
</table>

Note multiple responses were possible for this topic.

Hong Kong and Tier 1 cities clearly dominate but the geographical dispersion of sales was greater than expected with 58% of the sample selling into tier 2 mainland cities and 30% selling into Tier 3 cities. Only 4% were confining their sales to Hong Kong only.

These results suggest that the China market geographical penetration of SA producers is more extensive than might have been expected, albeit that the results only measure number of participants in the respective destinations, rather than share of sales volume. The latter is the relevant measure of SA wine penetration for the China market geography.

It is significant that 28% of the respondents were not sure of the final destination of their wine. Clearly this precluded them from developing their consumer franchise or exercising direct control over their destiny in the market.

China market distribution

Table 4 Distribution arrangements

<table>
<thead>
<tr>
<th>Distribution arrangements</th>
<th>Response percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal agency agreement for specified duration and territory</td>
<td>41.5</td>
</tr>
<tr>
<td>Ship to order by China-based importer</td>
<td>34.1</td>
</tr>
<tr>
<td>Sales to Australian-based export agent</td>
<td>14.6</td>
</tr>
<tr>
<td>My own China-based distribution/sales team or retail outlets</td>
<td>2.4</td>
</tr>
<tr>
<td>Other e.g. nil, under negotiation, China importer</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Only 42% of the respondents had formal distribution arrangements in place. One respondent had their own China based sales team/retail outlets. The others used an Australian export agent (15%) or had more informal arrangements with China based importers. The latter represents the least robust distribution alternative.

Marketing activities in the China market

Table 5: Marketing activities ever undertaken in China (including Hong Kong)

<table>
<thead>
<tr>
<th>Marketing activity</th>
<th>Response percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tastings of your wines</td>
<td>58.7</td>
</tr>
<tr>
<td>Participation in Chinese wine trade fairs</td>
<td>52.2</td>
</tr>
<tr>
<td>Produce and distribute promotional materials in Chinese</td>
<td>43.5</td>
</tr>
<tr>
<td>Regular market visits</td>
<td>43.5</td>
</tr>
<tr>
<td>Provide education/training for China based distribution/sales staff</td>
<td>37.0</td>
</tr>
</tbody>
</table>
Appointed brand representative in the market | 26.1
Mandarin translation added to your website | 13.0
Social media promotion on Chinese websites | 8.7
Other e.g. agent does everything, none, help from friends in the market | 17.4

Note multiple responses were possible for this topic.

Tastings, regular market visits and trade fair participation were the most common marketing activities, whereas China based staff education/training 37%, website mandarin translation 13% and social media promotion 11%, were less prevalent. Arguably these less popular marketing activities are particularly effective in the China market.

**China market future intentions**

The survey listed 12 business development alternatives for the China market for the next 5 years.

<table>
<thead>
<tr>
<th>Future intentions alternatives</th>
<th>Response percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased sales with existing wine selection and sales territory</td>
<td>69.6</td>
</tr>
<tr>
<td>Target different geographical regions (cities, provinces) to generate sales growth</td>
<td>58.7</td>
</tr>
<tr>
<td>Increase visits to China</td>
<td>47.8</td>
</tr>
<tr>
<td>Revise distribution arrangements for improved sales performance and/or distribution security</td>
<td>39.1</td>
</tr>
<tr>
<td>Improve sales mix to increase profitability</td>
<td>37.0</td>
</tr>
<tr>
<td>Change wine pricing (increase)</td>
<td>26.1</td>
</tr>
<tr>
<td>Seek Chinese equity partner to finance working capital and provide enhanced market access for expansion in the Chinese wine market</td>
<td>21.7</td>
</tr>
<tr>
<td>Change the wine offered (variety, style, packaging) to better suit the Chinese market</td>
<td>19.6</td>
</tr>
<tr>
<td>Employ Chinese speaking staff in Australia</td>
<td>15.2</td>
</tr>
<tr>
<td>Opening an office or cellar door in China</td>
<td>13.0</td>
</tr>
<tr>
<td>Withdraw from the market</td>
<td>6.5</td>
</tr>
<tr>
<td>Change wine pricing (decrease)</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Note multiple responses were possible for this topic.

The dominant response (70%) was a status quo sales growth strategy. Given the expected changes in the China wine market the likely success of this strategy could be queried. Nevertheless the response that 48% intended to increase visits to China recognises that sales growth will require increased marketing investment.
The next most frequent response was to increase sales through expanding the territories targeted. This strategy recognises the increasing geographic dispersion of wine demand growth within China.

The remaining responses demonstrated the intention to be more innovative and/or invest more in developing the business in the China market. There was strong interest (21.7% of all responses) in attracting Chinese equity investment in wine producers’ businesses.

Overall, the future intentions responses from the 46 respondents could be categorised in terms of their business development strategy as follows:

- Sales growth via status quo (32 respondents)
- Sales growth via territory expansion (17 respondents)
- Distribution changes (28 respondents)
- Product changes (12)
- Pricing changes (13 respondents)
- Withdraw from market (3 respondents)

Note multiple responses, an individual producer may adopt more than one strategy.

It is encouraging to see that significant numbers of the respondents recognised the need to innovate and revise their business development strategy, especially in relation to distribution.

**Case study learnings**

Several of the survey respondents volunteered to participate in follow up interviews that yielded insights and learnings that are relevant to the business development choices of individual SME wine producers targeting the China wine market. These will be documented in the full China Wine Market Guide report scheduled for release in mid 2014.

SAWIA February 2014
9.2 Wine Intelligence, China market research, Vinitrac March 2013

Research methodology

- Vinitrac data for this survey was collected in March 2013, with 1,024 Chinese upper middle class imported wine drinkers who have the following characteristics:
  - Upper middle class (personal income of at least 4,000 RMB per month)
  - 18-49 years old
  - Residents of Beijing, Guangzhou, Shanghai, Wuhan, Shenyang, Chengdu
  - Drink imported grape-based wine at least twice a year

- Vinitrac data is representative of 19 million of Chinese urban aged 18 - 49 upper-middle class imported wine drinkers
  - The sample was calibrated against all middle-class (and above) drinkers of imported wine in these cities (see map) using quota sampling and post-weighting

Sample distribution is as follows:

<table>
<thead>
<tr>
<th>Gender</th>
<th>Male 66%</th>
<th>Female 34%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>18-29 30%</td>
<td>30-49 42%</td>
</tr>
<tr>
<td>40-69  40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>City</td>
<td>Beijing 14%</td>
<td>Guangzhou 18%</td>
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<tr>
<td></td>
<td>Shanghai 45%</td>
<td>Wuhan 4%</td>
</tr>
<tr>
<td></td>
<td>Chengdu 13%</td>
<td>Shenyang 6%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>
### Off trade occasion, wine consumption frequency

**Red:** Statistically significantly higher than all sample at a 95% confidence level  
**Blue:** Statistically significantly lower than all sample at a 95% confidence level  
**Grey:** Small sample size

<table>
<thead>
<tr>
<th>Sample size</th>
<th>All sample</th>
<th>China city - Tiers 1 and 2</th>
<th>Typical off-trade spend - China</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Column N %</td>
<td>Column N %</td>
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<tr>
<td></td>
<td>All</td>
<td>Tier 1</td>
<td>Tier 2</td>
</tr>
<tr>
<td></td>
<td>1024</td>
<td>786</td>
<td>239</td>
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</tbody>
</table>

**Informal meal at home**

<table>
<thead>
<tr>
<th></th>
<th>Never</th>
<th>Less often</th>
<th>About once per year</th>
<th>Once a year or less</th>
<th>2-5 times per year</th>
<th>About once every two months</th>
<th>A few times a year</th>
<th>1-3 times per month</th>
<th>Once a week or more often</th>
<th>Once a month or more</th>
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<tr>
<td><strong>China city - Tiers 1 and 2</strong></td>
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<td></td>
<td>1%</td>
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<td>2%</td>
<td>5%</td>
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<td>20%</td>
<td>39%</td>
<td>39%</td>
<td>17%</td>
<td>56%</td>
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<td>0%</td>
<td>2%</td>
<td>3%</td>
<td>7%</td>
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<td>20%</td>
<td>38%</td>
<td>38%</td>
<td>18%</td>
<td>58%</td>
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<td>3%</td>
<td>4%</td>
<td>26%</td>
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<td>41%</td>
<td>37%</td>
<td>8%</td>
<td>52%</td>
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<td>0%</td>
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<td>7%</td>
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<td>46%</td>
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<td>21%</td>
<td>47%</td>
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<tr>
<td><strong>Typical off-trade spend - China</strong></td>
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**Meal at home with guests**

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<tr>
<th></th>
<th>Never</th>
<th>Less often</th>
<th>About once per year</th>
<th>Once a year or less</th>
<th>2-5 times per year</th>
<th>About once every two months</th>
<th>A few times a year</th>
<th>1-3 times per month</th>
<th>Once a week or more often</th>
<th>Once a month or more</th>
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<tr>
<td><strong>China city - Tiers 1 and 2</strong></td>
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<td>0%</td>
<td>3%</td>
<td>3%</td>
<td>6%</td>
<td>23%</td>
<td>27%</td>
<td>50%</td>
<td>36%</td>
<td>8%</td>
<td>44%</td>
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<td></td>
<td>0%</td>
<td>3%</td>
<td>3%</td>
<td>6%</td>
<td>23%</td>
<td>27%</td>
<td>52%</td>
<td>34%</td>
<td>8%</td>
<td>42%</td>
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<tr>
<td></td>
<td>0%</td>
<td>4%</td>
<td>4%</td>
<td>5%</td>
<td>22%</td>
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<td>45%</td>
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<td>10%</td>
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<td>1%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>29%</td>
<td>20%</td>
<td>63%</td>
<td>26%</td>
<td>2%</td>
<td>28%</td>
</tr>
<tr>
<td><strong>Typical off-trade spend - China</strong></td>
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</tbody>
</table>

**Relaxing drink at home**

<table>
<thead>
<tr>
<th></th>
<th>Never</th>
<th>Less often</th>
<th>About once per year</th>
<th>Once a year or less</th>
<th>2-5 times per year</th>
<th>About once every two months</th>
<th>A few times a year</th>
<th>1-3 times per month</th>
<th>Once a week or more often</th>
<th>Once a month or more</th>
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</thead>
<tbody>
<tr>
<td><strong>China city - Tiers 1 and 2</strong></td>
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<td></td>
<td>2%</td>
<td>6%</td>
<td>3%</td>
<td>11%</td>
<td>14%</td>
<td>19%</td>
<td>33%</td>
<td>33%</td>
<td>24%</td>
<td>57%</td>
</tr>
<tr>
<td></td>
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</tr>
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<td>15%</td>
<td>32%</td>
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<td>21%</td>
<td>53%</td>
</tr>
<tr>
<td><strong>Typical off-trade spend - China</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Off trade spend, dinner at home

<table>
<thead>
<tr>
<th>Special occasion (home)</th>
<th>China city - Tiers 1 and 2</th>
<th>Typical off-trade spend - China</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All sample</td>
<td>Tier 1</td>
</tr>
<tr>
<td></td>
<td>Column N %</td>
<td>Column N %</td>
</tr>
<tr>
<td>Sample size</td>
<td>1024</td>
<td>786</td>
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</tbody>
</table>

#### When inviting guests home for dinner

<table>
<thead>
<tr>
<th>When inviting guests home for dinner</th>
<th>Less than 50 RMB</th>
<th>50 to 74 RMB</th>
<th>75 to 99 RMB</th>
<th>100 to 124 RMB</th>
<th>125 to 149 RMB</th>
<th>150 to 174 RMB</th>
<th>175 to 199 RMB</th>
<th>200 to 249 RMB</th>
<th>250 to 299 RMB</th>
<th>300 to 499 RMB</th>
<th>500 RMB or more</th>
<th>I don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 50 RMB</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>50 to 74 RMB</td>
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<td>1%</td>
<td>0%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>75 to 99 RMB</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
<td>8%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>100 to 124 RMB</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
<td>19%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>125 to 149 RMB</td>
<td>9%</td>
<td>9%</td>
<td>8%</td>
<td>27%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>150 to 174 RMB</td>
<td>10%</td>
<td>11%</td>
<td>9%</td>
<td>22%</td>
<td>5%</td>
<td>0%</td>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>175 to 199 RMB</td>
<td>9%</td>
<td>8%</td>
<td>13%</td>
<td>11%</td>
<td>9%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>200 to 249 RMB</td>
<td>16%</td>
<td>17%</td>
<td>13%</td>
<td>8%</td>
<td>20%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>250 to 299 RMB</td>
<td>12%</td>
<td>13%</td>
<td>9%</td>
<td>1%</td>
<td>16%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>300 to 499 RMB</td>
<td>15%</td>
<td>15%</td>
<td>17%</td>
<td>2%</td>
<td>21%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>500 RMB or more</td>
<td>19%</td>
<td>18%</td>
<td>25%</td>
<td>0%</td>
<td>28%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Red:** Statistically significantly higher than all sample at a 95% confidence level  
**Blue:** Statistically significantly lower than all sample at a 95% confidence level  
**Grey:** small sample size  

Up to 50% of respondents would drink wine when inviting guests home for dinner at least once a month.  
The proportion among those who typically spend below 150RMB is significantly lower than the overall average while the
proportion in the >150RMB spend category is significantly higher. There is no significant difference between Tier 1 and Tier 2 cities on this variable.

Comparison informal occasions, on/off trade

<table>
<thead>
<tr>
<th>With an informal meal at home</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Never</td>
</tr>
<tr>
<td></td>
<td>Less often</td>
</tr>
<tr>
<td></td>
<td>About once per year</td>
</tr>
<tr>
<td></td>
<td>Once a year or less</td>
</tr>
<tr>
<td></td>
<td>2-5 times per year</td>
</tr>
<tr>
<td></td>
<td>About once every two months</td>
</tr>
<tr>
<td></td>
<td>A few times a year</td>
</tr>
<tr>
<td></td>
<td>1-3 times per month</td>
</tr>
<tr>
<td></td>
<td>Once a week or more often</td>
</tr>
<tr>
<td></td>
<td>Once a month or more</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>With an informal meal in a restaurant</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Never</td>
</tr>
<tr>
<td></td>
<td>Less often</td>
</tr>
<tr>
<td></td>
<td>About once per year</td>
</tr>
<tr>
<td></td>
<td>Once a year or less</td>
</tr>
<tr>
<td></td>
<td>2-5 times per year</td>
</tr>
<tr>
<td></td>
<td>About once every two months</td>
</tr>
<tr>
<td></td>
<td>A few times a year</td>
</tr>
<tr>
<td></td>
<td>1-3 times per month</td>
</tr>
<tr>
<td></td>
<td>Once a week or more often</td>
</tr>
<tr>
<td></td>
<td>Once a month or more</td>
</tr>
</tbody>
</table>
### Awareness, conversion, penetration

<table>
<thead>
<tr>
<th>Country</th>
<th>Awareness</th>
<th>Conversion</th>
<th>Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>91%</td>
<td>82%</td>
<td>75%</td>
</tr>
<tr>
<td>China</td>
<td>81%</td>
<td>90%</td>
<td>73%</td>
</tr>
<tr>
<td>Italy</td>
<td>64%</td>
<td>48%</td>
<td>31%</td>
</tr>
<tr>
<td>Australia</td>
<td>61%</td>
<td>54%</td>
<td>33%</td>
</tr>
<tr>
<td>Spain</td>
<td>51%</td>
<td>37%</td>
<td>19%</td>
</tr>
<tr>
<td>Portugal</td>
<td>45%</td>
<td>40%</td>
<td>18%</td>
</tr>
<tr>
<td>Germany</td>
<td>44%</td>
<td>39%</td>
<td>17%</td>
</tr>
<tr>
<td>Chile</td>
<td>44%</td>
<td>46%</td>
<td>20%</td>
</tr>
<tr>
<td>New Zealand</td>
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<td>36%</td>
<td>15%</td>
</tr>
<tr>
<td>California</td>
<td>36%</td>
<td>43%</td>
<td>16%</td>
</tr>
<tr>
<td>Other USA (e.g. another state in USA)</td>
<td>36%</td>
<td>34%</td>
<td>12%</td>
</tr>
<tr>
<td>Argentina</td>
<td>34%</td>
<td>26%</td>
<td>9%</td>
</tr>
<tr>
<td>South Africa</td>
<td>24%</td>
<td>26%</td>
<td>6%</td>
</tr>
<tr>
<td>Greece</td>
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<td>23%</td>
<td>4%</td>
</tr>
<tr>
<td>Other, please specify:</td>
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<td>1%</td>
</tr>
<tr>
<td>None of these</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>I don’t know</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Awareness</th>
<th>Conversion</th>
<th>Penetration</th>
</tr>
</thead>
<tbody>
<tr>
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<td>74%</td>
<td>59%</td>
</tr>
<tr>
<td>Provence</td>
<td>61%</td>
<td>39%</td>
<td>23%</td>
</tr>
<tr>
<td>Sicily</td>
<td>51%</td>
<td>32%</td>
<td>16%</td>
</tr>
<tr>
<td>Western Australia</td>
<td>50%</td>
<td>41%</td>
<td>20%</td>
</tr>
<tr>
<td>Côtes du Rhône</td>
<td>46%</td>
<td>32%</td>
<td>15%</td>
</tr>
<tr>
<td>Bourgogne</td>
<td>44%</td>
<td>45%</td>
<td>19%</td>
</tr>
<tr>
<td>Alsace</td>
<td>40%</td>
<td>31%</td>
<td>13%</td>
</tr>
<tr>
<td>Loire</td>
<td>39%</td>
<td>24%</td>
<td>9%</td>
</tr>
<tr>
<td>Marlborough</td>
<td>36%</td>
<td>29%</td>
<td>10%</td>
</tr>
<tr>
<td>Médoc</td>
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<td>24%</td>
<td>8%</td>
</tr>
<tr>
<td>Washington State</td>
<td>31%</td>
<td>33%</td>
<td>11%</td>
</tr>
<tr>
<td>Napa Valley</td>
<td>31%</td>
<td>29%</td>
<td>9%</td>
</tr>
<tr>
<td>Barossa Valley</td>
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<td>31%</td>
<td>9%</td>
</tr>
<tr>
<td>Barolo</td>
<td>28%</td>
<td>18%</td>
<td>5%</td>
</tr>
<tr>
<td>Hunter Valley</td>
<td>27%</td>
<td>37%</td>
<td>10%</td>
</tr>
<tr>
<td>Languedoc</td>
<td>26%</td>
<td>35%</td>
<td>9%</td>
</tr>
<tr>
<td>Sonoma</td>
<td>19%</td>
<td>21%</td>
<td>4%</td>
</tr>
<tr>
<td>Beaujolais</td>
<td>18%</td>
<td>38%</td>
<td>7%</td>
</tr>
<tr>
<td>Rioja</td>
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<td>26%</td>
<td>4%</td>
</tr>
<tr>
<td>Chianti</td>
<td>16%</td>
<td>28%</td>
<td>4%</td>
</tr>
<tr>
<td>Ribera del Duero</td>
<td>14%</td>
<td>27%</td>
<td>4%</td>
</tr>
<tr>
<td>None of these</td>
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<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>
### Region penetration by city tier and spend

<table>
<thead>
<tr>
<th>Region penetration</th>
<th>China city - Tiers 1 and 2</th>
<th>Typical off-trade spend - China</th>
</tr>
</thead>
<tbody>
<tr>
<td>All sample</td>
<td>Tier 1</td>
<td>Tier 2</td>
</tr>
<tr>
<td>1024</td>
<td>786</td>
<td>239</td>
</tr>
<tr>
<td>Bordeaux</td>
<td>59%</td>
<td>60%</td>
</tr>
<tr>
<td>Provence</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>Western Australia</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>Bourgogne</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Sicily</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Côtes du Rhône</td>
<td>15%</td>
<td>14%</td>
</tr>
<tr>
<td>Alsace</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>Washington State</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Marlborough</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Hunter Valley</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Barossa Valley</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Loire</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Languedoc</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Napa Valley</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>None of these</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>
9.3 China Customs Data Analysis, December Quarter 2013

Introduction

Wine Australia collects comprehensive data on exports of Australian wine to the China market, refer WEAR databases in winefacts. However this data does not provide any detail about the end destination of the wine nor the importing entities.

China customs data does enable some insights about who is importing and where the wine goes.

Note however that the customs data analysed here is for mainland China only and consequently imports to Hong Kong and Macau are not within scope. Therefore the data will underestimate Australian wine imports to the extent that some of the Hong Kong wine imports find their way into the mainland China market.

Mushui Huanmei Li, an experienced wine writer for Chinese wine publications and a PhD student at Adelaide University, was commissioned to acquire and analyse China Customs data for wine imports for the December quarter of 2013. This time period is the most relevant quarter as it captures imports for New Year and the Chinese New Year (31 January 2014) selling period that accounts for disproportionate sales of imported bottled wine.

Wine imports by country of origin

In the last quarter of 2013, China imported around 63 million litres of wines (including bulk and bottled wines) valued at USD$ 250 million from France, Australia, Chile, US, Spain, Italy and other wine producing countries around the world.

Figure 1: Total wine imports to China by major suppliers from Oct. to Dec. 2013

Source: China Customs, 2013
As shown in Figure 1, China imported around 7.3 million litres of wine valued at USD$ 40 million from Australia, comprised of around 0.3 million litres of bulk wine, 0.03 million litres of sparkling wine with the balance being still bottled wine.

However it is more useful to focus on bottled wine imports to eliminate the volatility of bulk wine imports, thus the following analysis focuses on bottled wine (bottled still wine). Figure 2 and table 1 show bottled wine imports by country of origin.

**Figure 2: Bottled wine imports to China by major suppliers from Oct. to Dec. 2013**

![Figure 2](image)

Source: China Customs, 2013

<table>
<thead>
<tr>
<th>Row Labels</th>
<th>Value (USD)</th>
<th>Value (Per.)</th>
<th>Volume (Litres)</th>
<th>Volume (Per.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>$87,068,813.09</td>
<td>37.22%</td>
<td>18520220.02</td>
<td>37.06%</td>
</tr>
<tr>
<td>Australia</td>
<td>$39,170,644.45</td>
<td>16.75%</td>
<td>6975067.32</td>
<td>13.96%</td>
</tr>
<tr>
<td>Others</td>
<td>$27,210,933.79</td>
<td>11.63%</td>
<td>3974940.86</td>
<td>7.95%</td>
</tr>
<tr>
<td>Chile</td>
<td>$20,910,716.64</td>
<td>8.94%</td>
<td>6221567.73</td>
<td>12.45%</td>
</tr>
<tr>
<td>US</td>
<td>$16,450,067.47</td>
<td>7.03%</td>
<td>3557814.65</td>
<td>7.12%</td>
</tr>
<tr>
<td>Spain</td>
<td>$12,677,138.37</td>
<td>5.42%</td>
<td>4350252.46</td>
<td>8.70%</td>
</tr>
<tr>
<td>Italy</td>
<td>$11,756,023.02</td>
<td>5.03%</td>
<td>2641328.41</td>
<td>5.29%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>$4,561,888.13</td>
<td>1.95%</td>
<td>627885.00</td>
<td>1.26%</td>
</tr>
<tr>
<td>South Africa</td>
<td>$3,335,502.35</td>
<td>1.43%</td>
<td>770870.25</td>
<td>1.54%</td>
</tr>
<tr>
<td>Germany</td>
<td>$3,081,978.69</td>
<td>1.32%</td>
<td>408155.19</td>
<td>0.82%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>$2,726,781.60</td>
<td>1.17%</td>
<td>592433.01</td>
<td>1.19%</td>
</tr>
<tr>
<td>Argentina</td>
<td>$2,507,053.20</td>
<td>1.07%</td>
<td>545354.25</td>
<td>1.09%</td>
</tr>
<tr>
<td>Portugal</td>
<td>$2,446,901.04</td>
<td>1.05%</td>
<td>789865.25</td>
<td>1.58%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$233,904,441.85</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>49975754.40</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

Source: China Customs, 2013

In the last quarter of 2013, Australia was the second largest source of bottled wine to China. According to Table 1, imported Australian bottled wines accounted for 16.75% in value and 13.96% in...
volume of the total bottled wine imported into China. However, Australia’s share in the Chinese market is far below the first market player, France that accounts for 37.22% share in value and 37.06% share in volume. Australia is followed closely by Chile that accounts for 12.45% in volume of the Chinese imported bottled wine market.

**Destinations within China for Australian bottled wine imports**

Table 2 outlines the destinations within China and their shares of total Australian bottled wine imports by volume and value. These destinations are the declared destinations following customs clearance and while they are a good indicator of the relative geographical dispersion of Australian wine, they may not be relied on as a measure of the location of retail sale or consumption since the wine may be further transferred.

<table>
<thead>
<tr>
<th>Provinces/ Municipalities</th>
<th>Value (USD)</th>
<th>Value (Per.)</th>
<th>Volume (Litres)</th>
<th>Volume (Per.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangdong Province</td>
<td>$10,712,727.42</td>
<td>27.35%</td>
<td>2235381.70</td>
<td>32.05%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>$6,411,296.24</td>
<td>16.37%</td>
<td>1001392.22</td>
<td>14.36%</td>
</tr>
<tr>
<td>Shandong Province</td>
<td>$4,501,268.36</td>
<td>11.49%</td>
<td>662783.50</td>
<td>9.50%</td>
</tr>
<tr>
<td>Tianjin</td>
<td>$2,543,015.49</td>
<td>6.49%</td>
<td>449382.89</td>
<td>6.44%</td>
</tr>
<tr>
<td>Jiangsu Province</td>
<td>$2,298,854.23</td>
<td>5.87%</td>
<td>390741.50</td>
<td>5.60%</td>
</tr>
<tr>
<td>Beijing</td>
<td>$2,266,801.49</td>
<td>5.79%</td>
<td>478815.00</td>
<td>6.86%</td>
</tr>
<tr>
<td>Fujian Province</td>
<td>$2,008,928.09</td>
<td>5.13%</td>
<td>461494.50</td>
<td>6.62%</td>
</tr>
<tr>
<td>Sichuan Province</td>
<td>$1,827,260.01</td>
<td>4.66%</td>
<td>351351.00</td>
<td>5.04%</td>
</tr>
<tr>
<td>Liaoning Province</td>
<td>$1,344,822.25</td>
<td>3.43%</td>
<td>215078.52</td>
<td>3.08%</td>
</tr>
<tr>
<td>Zhejiang Province</td>
<td>$1,223,229.25</td>
<td>3.12%</td>
<td>174504.98</td>
<td>2.50%</td>
</tr>
<tr>
<td>Hubei Province</td>
<td>$816,290.64</td>
<td>2.08%</td>
<td>151130.00</td>
<td>2.17%</td>
</tr>
<tr>
<td>Shaanxi Province</td>
<td>$633,284.47</td>
<td>1.62%</td>
<td>42336.00</td>
<td>0.61%</td>
</tr>
<tr>
<td>Henan Province</td>
<td>$547,363.21</td>
<td>1.40%</td>
<td>71217.50</td>
<td>1.02%</td>
</tr>
<tr>
<td>Guangxi Province</td>
<td>$495,020.85</td>
<td>1.26%</td>
<td>91071.00</td>
<td>1.31%</td>
</tr>
<tr>
<td>Shanxi Province</td>
<td>$363,875.84</td>
<td>0.93%</td>
<td>34488.00</td>
<td>0.49%</td>
</tr>
<tr>
<td>Hebei Province</td>
<td>$325,676.26</td>
<td>0.83%</td>
<td>52128.00</td>
<td>0.75%</td>
</tr>
<tr>
<td>Chongqing</td>
<td>$178,252.59</td>
<td>0.46%</td>
<td>13464.00</td>
<td>0.19%</td>
</tr>
<tr>
<td>Jilin Province</td>
<td>$169,905.55</td>
<td>0.43%</td>
<td>18199.50</td>
<td>0.26%</td>
</tr>
<tr>
<td>Hainan Province</td>
<td>$108,231.79</td>
<td>0.28%</td>
<td>3150.00</td>
<td>0.05%</td>
</tr>
<tr>
<td>Yunnan Province</td>
<td>$101,276.07</td>
<td>0.26%</td>
<td>22050.00</td>
<td>0.32%</td>
</tr>
<tr>
<td>Anhui Province</td>
<td>$92,427.42</td>
<td>0.24%</td>
<td>22212.00</td>
<td>0.32%</td>
</tr>
<tr>
<td>Heilongjiang Province</td>
<td>$70,650.00</td>
<td>0.18%</td>
<td>21168.00</td>
<td>0.30%</td>
</tr>
<tr>
<td>Guizhou Province</td>
<td>$69,930.49</td>
<td>0.18%</td>
<td>6541.50</td>
<td>0.09%</td>
</tr>
<tr>
<td>Jiangxi Province</td>
<td>$60,256.45</td>
<td>0.15%</td>
<td>4986.00</td>
<td>0.07%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$39,170,644.46</strong></td>
<td><strong>100%</strong></td>
<td><strong>6975067.31</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Source: China Customs, 2013*

According to Table 2, around 80% of Australian bottled wines (78% by value and 81% by volume) were transferred into four provinces and three cities that are directly under central government control: Guangdong Province, Shanghai, Shandong Province, Beijing, Fujian Province, Tianjin and Jiangsu Province.

The details of volume share and value share of these provinces and cities for total Australian bottled wine imports are shown in Figure 3 and Figure 4.
However, another perspective is to look at the **Australian share of total bottled wine** imports from all countries of origin to each province or city. This provides some measure of relative performance against other country of origin imports. Some caution is required in interpreting this data because as noted earlier, it is clearances rather than sales data and hence does not capture later transfers in or
out of the destination declared in customs records. Despite this, it is likely to be a useful indicator of relative geographical market penetration.

Table 3 shows the Australian share of imported bottled wine clearances into provinces and cities of China. It can be seen from Table 3 that there are 15 destinations in total where Australian bottled wine has market shares of more than 20%.

Australian bottled wine has a strong penetration in some inland territories of China with 7 out of the top 10 highest Australian market shares being in inland areas of China. Market share of Australian wine in the imported wine market of Sichuan Province is ranked first with 69.60%, followed by market share in Shanxi Province of 67.36% and Jilin Province of 61.51%. Penetration in the provinces of Guizhou (46.63%) and Hubei (44.56%) are ranked fourth and fifth respectively. The sixth ranked penetration of Australian bottled wine is in the coastal province Yunnan with 35.59% and is closely followed by inland provinces of Shaanxi (34.85%) and Guangxi (31.94%).

Import market shares of Australian bottled wine in Guangdong Province and Shanghai, are 23.93% and 16.06% respectively, compared to their status as the strongest (first and second ranked) destinations for Australian bottled wine in total.

The import market share of Australian bottled wine in another two important destinations Shandong Province and Fujian Province is 24.86% and 10.7%, showing that penetration of Australian bottled wine in Shandong Province is well above its penetration in Fujian Province. The weaker penetration of Australian wine in Zhejiang and Beijing at 7%-8% may reflect either weaker Australian distribution or stronger competition between imported wine in those two places.

<table>
<thead>
<tr>
<th>Provinces</th>
<th>Australian bottled wine(USD)</th>
<th>Bottled wine in total (USD)</th>
<th>share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sichuan Province</td>
<td>$1,827,260.01</td>
<td>$2,625,505.61</td>
<td>69.60%</td>
</tr>
<tr>
<td>Shanxi Province</td>
<td>$363,875.84</td>
<td>$540,169.84</td>
<td>67.36%</td>
</tr>
<tr>
<td>Jilin Province</td>
<td>$169,905.55</td>
<td>$276,220.09</td>
<td>61.51%</td>
</tr>
<tr>
<td>Guizhou Province</td>
<td>$69,930.49</td>
<td>$149,956.60</td>
<td>46.63%</td>
</tr>
<tr>
<td>Hubei Province</td>
<td>$816,290.64</td>
<td>$1,831,835.26</td>
<td>44.56%</td>
</tr>
<tr>
<td>Yunnan Province</td>
<td>$101,276.07</td>
<td>$284,530.69</td>
<td>35.59%</td>
</tr>
<tr>
<td>Shaanxi Province</td>
<td>$633,284.47</td>
<td>$1,817,124.01</td>
<td>34.85%</td>
</tr>
<tr>
<td>Guangxi Province</td>
<td>$495,020.85</td>
<td>$1,549,707.95</td>
<td>31.94%</td>
</tr>
<tr>
<td>Hainan Province</td>
<td>$108,231.79</td>
<td>$363,101.34</td>
<td>29.81%</td>
</tr>
<tr>
<td>Henan Province</td>
<td>$5,367,363.21</td>
<td>$2,010,945.43</td>
<td>27.22%</td>
</tr>
<tr>
<td>Tianjin</td>
<td>$2,454,015.49</td>
<td>$9,763,236.06</td>
<td>26.05%</td>
</tr>
<tr>
<td>Shandong Province</td>
<td>$4,501,268.36</td>
<td>$18,103,265.44</td>
<td>24.86%</td>
</tr>
<tr>
<td>Guangdong Province</td>
<td>$10,712,727.42</td>
<td>$44,774,556.50</td>
<td>23.93%</td>
</tr>
<tr>
<td>Liaoning Province</td>
<td>$1,344,822.25</td>
<td>$5,787,590.56</td>
<td>23.24%</td>
</tr>
<tr>
<td>Jiangxi Province</td>
<td>$60,256.45</td>
<td>$297,333.56</td>
<td>20.27%</td>
</tr>
<tr>
<td>Hebei Province</td>
<td>$325,676.26</td>
<td>$1,733,327.94</td>
<td>18.79%</td>
</tr>
<tr>
<td>Chongqing</td>
<td>$178,252.59</td>
<td>$954,751.84</td>
<td>18.67%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>$6,411,296.24</td>
<td>$39,927,975.07</td>
<td>16.06%</td>
</tr>
<tr>
<td>Jiangsu Province</td>
<td>$2,298,854.23</td>
<td>$14,779,387.76</td>
<td>15.55%</td>
</tr>
<tr>
<td>Heilongjiang Province</td>
<td>$70,650.00</td>
<td>$466,009.86</td>
<td>15.16%</td>
</tr>
<tr>
<td>Anhui Province</td>
<td>$92,427.42</td>
<td>$719,920.97</td>
<td>12.84%</td>
</tr>
<tr>
<td>Fujian Province</td>
<td>$2,008,928.09</td>
<td>$18,770,515.08</td>
<td>10.70%</td>
</tr>
</tbody>
</table>
To further illustrate the import share penetration of Australian wine in China market, Figure 5 shows the provinces and cities importing bottled wine from Australia against the total bottled wine imported in those destinations where imports exceeded a total value above one million USD in the December quarter of 2013. It can be seen that there were fifteen provinces and cities each importing wine with value above 1 million USD.

The locations of the above mentioned main provinces and cities in China importing Australian wine are highlighted in red and the main provinces and cities that Australian bottled wine has high import share are highlighted in orange, as shown in Figure 6. As shown in Figure 6, these provinces and cities (Guangdong Province, Shanghai, Shandong province, Beijing, Fujian Province, Tianjin and Jiangsu Province) are all located in the coastal areas of China. However, some inland areas such as Sichuan province, Shaanxi, Henan and Hubei provinces are showing strong evidence of Australian wine penetration as shown in Table 2.

<table>
<thead>
<tr>
<th>Province</th>
<th>Australian bottled wine</th>
<th>Total wine imported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zhejiang Province</td>
<td>$1,223,229.25</td>
<td>$15,393,332.79</td>
</tr>
<tr>
<td>Beijing</td>
<td>$2,266,801.49</td>
<td>$31,853,654.49</td>
</tr>
<tr>
<td>Hunan Province</td>
<td>0</td>
<td>$743,131.03</td>
</tr>
<tr>
<td>Gansu Province</td>
<td>0</td>
<td>$608,537.58</td>
</tr>
<tr>
<td>Ningxia Province</td>
<td>0</td>
<td>$494,271.29</td>
</tr>
<tr>
<td>Inner Mongolia</td>
<td>0</td>
<td>$266,999.36</td>
</tr>
<tr>
<td>Xinjiang</td>
<td>0</td>
<td>$297,333.56</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$39,170,644.45</strong></td>
<td><strong>$217,184,227.53</strong></td>
</tr>
</tbody>
</table>
Figure 6: Location of the main provinces and cities importing Australian wine (1)
Figure 7 provides volumes and average prices of imported Australian bottled wines in these provinces and cities. It can be seen in Figure 7 that although Guangdong province is the largest Australian bottled wine destination by volume, its imported wine price is generally around 7 to 8 US dollars per litre (Guangdong Province also has the dominant share for bulk wine at 73% in value.). Premium wine is centred in Shanghai with average price around 13 to 14 US dollars per litre.
Australian wine penetration into Fujian and Shandong Provinces

The results for Fujian province and Shandong Province reveal strong volume penetration and attractive price ranges for Australian wine. The ranges of average imported Australian bottled wine price are 9 to 10 US dollars and 10 to 11 US dollars in Shandong and Fujian province respectively. Together the two provinces account for the destination of 16% by volume and 17% by value of Australian bottled wine clearances.

Shandong Province
According to Figure 8, France with around 1.7 million litres of wine and 33 US dollars of average price is the largest bottled wine player in Shandong province both in volume and in price. Australia following France is in the second place with around 0.7 million litres and average price of 9.1 US dollars per litre in the sixth place in average price ranking. Australia is followed by Spain (around 0.4 million litres and 5.3 USD/Litre) and Chile (0.2 million litres and 3.89 USD/Litre). Average prices in other main exporter players like New Zealand, and the US are above 10 dollars.

Fujian Province

Figure 9 shows French wine (1.4 million litres) dominates the wine market in Fujian province with average price of 179.4 USD/Litre and 1.37 million litres of wine in total accounting for about 18% of the wine market share in Fujian province, far above all the other suppliers. Australian wine is in the sixth place in volume and the second place in average price with around 0.46 million litres of wine and average price of 10.3 USD/Litre. France and Australia are the only two wine suppliers with average price above 10 US dollars. Imported bottled wine from France and Australia accounts 40.98 % of the wine market in Fujian province. Wine imported from US and Spain accounts 15.06% and 11.09% respectively with average price around 4 US dollars per litre in the wine market of Fujian province. The remaining wine from other countries accounts for 32.87%.

Source: China Customs, 2013
Customs entry points for Australian wine

According to Figure 10, Shanghai customs cleared 24% of all bottled wines imported from Australia representing around 1.7 million litres of bottled wine. Guangdong sub Customs, one of the eight main customs in Guangdong Province, is in the second place with clearances of 19% of the total imported bottled wine from Australia, accounting for 1.3 million litres of Australian bottled wine import to China. Tianjin customs with clearances of around 1.1 million litres of wine imported from Australia is in the third place. The top three customs account around 59% of customs clearance for bottled wines imported from Australia. Qingdao customs in Shandong Province, Xiamen customs in Fujian province, Huangpu customs in Guangdong province and Dalian customs in Liaoning province are the other main customs entry points for Australian wines to China market. There are only five main customs with average bottled wine price clearance above 10 US dollars per litre. These five customs are Shanghai customs, Xiamen customs, Huangpu Customs, Dalian customs and Haikou customs.
### Australian wine importers profile

#### Table 4: Main importers of Australian bottled wine from Oct. to Dec.

<table>
<thead>
<tr>
<th>Importer Name</th>
<th>Percentage (value)</th>
<th>Percentage (Volume)</th>
</tr>
</thead>
<tbody>
<tr>
<td>四川泰丰集团有限公司 (Tai Feng Group)</td>
<td>4.00%</td>
<td>4.48%</td>
</tr>
<tr>
<td>广州高材贸易有限公司 (Tall Trees )</td>
<td>1.79%</td>
<td>2.87%</td>
</tr>
<tr>
<td>天津前进实业有限公司</td>
<td>2.63%</td>
<td>2.16%</td>
</tr>
<tr>
<td>广州玄潮贸易有限公司</td>
<td>1.24%</td>
<td>1.98%</td>
</tr>
<tr>
<td>厦门森宝食品贸易有限公司</td>
<td>1.50%</td>
<td>1.85%</td>
</tr>
<tr>
<td>张家港保税区环球物流中心有限公司</td>
<td>1.39%</td>
<td>1.72%</td>
</tr>
<tr>
<td>上海亨环进出口有限公司</td>
<td>1.96%</td>
<td>1.63%</td>
</tr>
<tr>
<td>广州市苏豪至尊酒业有限公司</td>
<td>0.22%</td>
<td>1.29%</td>
</tr>
<tr>
<td>上海市食品进出口有限公司</td>
<td>1.21%</td>
<td>1.22%</td>
</tr>
<tr>
<td>保乐力加(中国)酒业有限公司</td>
<td>1.33%</td>
<td>1.12%</td>
</tr>
<tr>
<td>南京三和源商贸有限公司</td>
<td>0.27%</td>
<td>0.98%</td>
</tr>
<tr>
<td>广州曼玲贸易有限公司</td>
<td>0.80%</td>
<td>0.97%</td>
</tr>
<tr>
<td>广州市施旗贸易有限公司</td>
<td>0.89%</td>
<td>0.90%</td>
</tr>
<tr>
<td>广州远洋船舶物资供应有限公司</td>
<td>0.62%</td>
<td>0.88%</td>
</tr>
<tr>
<td>深圳市银宽酒业有限公司</td>
<td>0.54%</td>
<td>0.84%</td>
</tr>
<tr>
<td>青岛保税区翔通物流有限公司</td>
<td>0.40%</td>
<td>0.72%</td>
</tr>
<tr>
<td>大由食品(北京)食品有限公司</td>
<td>0.77%</td>
<td>0.72%</td>
</tr>
<tr>
<td>大连歌德酒业有限公司</td>
<td>0.55%</td>
<td>0.71%</td>
</tr>
<tr>
<td>杰仕珍酿(烟台)酒业有限公司</td>
<td>0.18%</td>
<td>0.68%</td>
</tr>
<tr>
<td>湖北劲牌酒业有限公司</td>
<td>0.28%</td>
<td>0.66%</td>
</tr>
<tr>
<td><strong>Total Percent</strong></td>
<td><strong>22.57%</strong></td>
<td><strong>28.38%</strong></td>
</tr>
</tbody>
</table>

Source: China Customs, 2013

There was a total of 2473 importers in the last quarter of 2013 importing wines from all over the world with 428 (17.31%) of them importing Australian wines to the Chinese market. There are 301 wine importers in Shandong Province with 58 (19.27%) of them importing Australian wines. There are 232 wine importers in Fujian Province with 29 (12.5%) of them importing Australian wines. Table 4 shows the Top 20 wine importers of Australian bottled wine to China.

As shown in Table 4 currently there is no wine importer dominating the market, with the top 20 wine importers accounting for only 22.57% in value and 28.38% in volume of the imports. Only 11 of these top 20 wine importers are wine related companies accounting for 55%. These 11 wine related companies either specialised in Australian wine importation such as Tall Tree or have invested in Australian wineries such as Taifeng Group (largest importer) that has invested in and/or formed a partnership with Gemtree winery in McLaren vale.

Mushui Huanmei Li  
PhD Candidate  
ECIC, the University of Adelaide  
Wine Writer (Fine Wine and Liquor Magazine, Wine in China, China Australia Entrepreneurs Magazine)  
Executive President, Wine Australia Promotion Association

March 2014.
9.4 SAWIA China wine involvement survey questionnaire

QUESTIONNAIRE

China Wine Market involvement survey

South Australian wine producer businesses

Thank you for taking the time to fill in this survey, it should take approximately 15 mins to complete.

The objective of the survey is to measure the extent of engagement of South Australian wine businesses with China as a wine market.

This information will benefit you by providing a more accurate assessment of the overall China market opportunity (including tourists) and how to access it for sales that are profitable and ongoing with secure distribution.

All survey participants will receive a summary version of the survey results but individual survey responses will remain CONFIDENTIAL.

The South Australian Wine Industry Association (SAWIA) has commissioned this survey on behalf of all South Australian wine businesses. Any queries regarding this survey can be directed to admin@winesa.asn.au

Q1. How many cases of wine did your wine business produce in 2012?
   Bottled wine ________ cases       Bulk wine ________ litres

Q2. Thinking about your sales to all markets (including domestic), please indicate what proportion of your sales volume fits in each price category:
   Less than $68 FOB/ex winery per 9 litre case % of sales ________ (approx)
   $68 - $90 FOB/ex winery per 9 litre case % of sales ________ (approx)
   Over $90 FOB/ex winery per 9 litre case % of sales ________ (approx)

Q3. What was your winery’s Halliday rating in 2013? (Please circle one)
   3       3.5       4       4.5       5       Not Rated

Q4. What proportion of your sales volume did you sell on the export market in 2012? ________ %

Q5. How many export markets (countries) in total did you sell wine into in 2012? __________

Please list your top five export markets (countries) from largest to smallest:
   1. __________________________   Volume exported in 2012: ________ litres
   2. __________________________   Volume exported in 2012: ________ litres
   3. __________________________   Volume exported in 2012: ________ litres
   4. __________________________   Volume exported in 2012: ________ litres
   5. __________________________   Volume exported in 2012: ________ litres
Q6. How much involvement have you had with the China (including Hong Kong) market?  
(Please tick as many as apply)

- Chinese tourists have visited my winery cellar door
- Chinese wine trade and/or wine media have visited the winery
- Been requested to supply wine for China export – did not proceed
- Representative of winery has visited China for market research or seeking distribution
- We have supplied bulk or buyers’ own brand to a third party for export to China
- We have exported wine to China under our own brand
- We have a received an offer from a Chinese business to invest in our wine business
- Other involvement (please describe)

Q7. Please indicate how much wine you have sold into China (including Hong Kong) in each of the past five years:

- None → please go to Q11

2012 Bottled wine _______ (cases)    Bulk wine ________ (litres)
2011 Bottled wine _______ (cases)    Bulk wine ________ (litres)
2010 Bottled wine _______ (cases)    Bulk wine ________ (litres)
2009 Bottled wine _______ (cases)    Bulk wine ________ (litres)
2008 Bottled wine _______ (cases)    Bulk wine ________ (litres)

Q8. For the wines sold in the China market, what GI region(s) do you identify on your wine labels?

____________________________________________________________________________

Q9. Where in China did your wine go to? (Please indicate the % of total China wine sales in each category)

- Hong Kong
- Tier 1 mainland China cities (Shanghai, Beijing, Guangzhou, Shenzhen) _______ %
- Tier 2 mainland China cities (Chengdu, Chongqing; Dalian, Guangdong, Hangzhou and Ningbo, Harbin, Hubei, Jinan, Nanjing, Qingdao, Shandong; Shenyang, Tianjin; Wuhan, Xi’an) _______ %
- Tier 3 mainland China cities (Any cities not listed above) _______ %
- Not sure of final destination city _______ %

Q10. What distribution arrangements do you have in place for your China market wine exports?  
(please select the ONE most applicable option)

- My own China-based distribution/sales team or retail outlets
- Formal agency distribution agreement for specified duration and territory
- Ship to order by China-based importer
- Sales to Australian-based export agent
- Other (please describe) __________________________________________________________
Q11. What marketing activities have you ever undertaken in China and Hong Kong? *(Please tick as many as apply)*

- ☐ Participation in Chinese Wine Trade fairs
- ☐ Produce and distribute promotional materials in Chinese
- ☐ Provide education/training for China based distributor sales staff
- ☐ Social media promotion on Chinese websites
- ☐ Mandarin translation added to your website
- ☐ Regular market visits
- ☐ Tastings of your wines
- ☐ Appointed brand representative in the market
- ☐ Other (please describe) __________________________________________________

Q12. What are your future intentions for the Chinese market in the next five years? *(Tick as many as apply)*

- ☐ Increased sales with existing wine selection and sales territory
- ☐ Improve wine sales mix to increase profitability
- ☐ Target different geographical regions (cities, provinces) to generate sales growth
- ☐ Change the wine offered (variety, style, packaging) to better suit the Chinese market
- ☐ Change wine pricing (increase)
- ☐ Change wine pricing (decrease)
- ☐ Revise distribution arrangements for improved sales performance and/or distribution security
- ☐ Seek Chinese equity partner to finance working capital and provide enhanced market access for expansion in the China wine market
- ☐ Opening an office or cellar door in China
- ☐ Employ Chinese speaking staff in Australia
- ☐ Increase visits to China
- ☐ Withdraw from the market
- ☐ Other (please describe) __________________________________________________

Q13. In what year was your wine business established? _____________

Q14. Do you own a winery?

- ☐ YES → What GI region is it located in: _________________________
- ☐ NO → What GI region is your contract processor located in: _________________________

Q15. Do you own your own vineyards? NO / YES → If yes, total area _______ (ha) GI region(s):

- ______________

Q16. How many people do you currently employ in your wine business?

- Full-time: _____________
- Part-time: _____________
- Casual: _____________
Q17. Would you be willing to share your China market experiences in an interview for case study learnings?

NO / YES → If yes, contact name: __________________________ Mobile: __________________________

Q18. Would you like your name to be entered into a prize draw to win a half day Chinese Cultural Awareness Workshop valued at $330? The workshop is presented by Chinese Language and Cultural Advice (CLCA). CLCA has considerable experience in advising wine businesses dealing with Chinese buyers and partners, refer website www.clca.com.au

NO / YES → If yes, contact name: __________________________ Email: __________________________

END OF SURVEY.