Wine Business Solutions

Wine On-Premise

CHINA 2020 中国

CHINA'S WINE LIST OF THE YEAR AWARDS

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The primary purpose of the On-Premise distribution effort is to attain listings. That is what WBS's 'Wine On-Premise China' survey measures. With over 10 years' experience of conducting this research in markets across the globe, this is our most ambitious and revealing project, yet. This is the 2nd time that the analysis of the Chinese On-Premise has been conducted in this way, this time using three years' worth of data.

We look at who the best distributors are, what the most listed wine brands and styles are, the performance of supplier countries and regions, what restaurants charge for wine listed by-the-bottle and by-the-glass, and how much wine business owners and distributors can expect to make from On-Premise sales in China.

Why are On-Premise listings so important?

- People buy what they try.
- It's a chance for your wine to be seen and consumed in the best possible surroundings.
- It's a chance for you to be remembered, recommended and bought again later.
- It's one of the only true 'brand building' opportunities many wine brands will ever experience.

About the Sample

WBS's Wine On-Premise China 2020 survey is somewhat different to our other projects. Through collaboration with the 'China Wine List of the Year Awards' we have access to five years of data. For the purpose of comparison and analysis of trends, we are using 54,000 listings taken from 2019, 2018 and 2016 entries into the competition.

The split used is as follows;

Region	Share of Listings	Share of Household income	Region	Share of Listings	Share of Household income
Central China Shanghai / Jiangsu, Zhejiang, Fujian, Hubei, Jiangxi, Henan, Anhui	48%	35%	**Southern China** Hong Kong, Macau, Guangdong, Hainan, Guangxi, Taiwan, Hunan	38%	26%
The North East Beijing, Heilongjiang, Liaoning, Tianjin, Hebei, Shandong, Inner Mongolia, Jilin, Shanxi	11%	24%	**Western China** Sichuan, Shaanxi, Xinjiang, Chongqing, Guizhou, Qinghai, Tibet, Yunnan, Gansu, Nigxia	3%	15%

Note – the balance of the lists in our sample covered multiple regions

In the normal case, our sampling is completely at random. In The UK, US, Canada, Germany and Australia, the wine listings that we use can come from any On-Premise venue. No outlet type, be it hotel, club, bar or restaurant, in any location has more or less chance of being selected.

The advantage of this approach is that it shows you the total market. There is no chance of emerging trends being overlooked. New restaurants and new restaurant concepts are easily picked up on. We are not going back to the same set of restaurants year after year. Instead, we are building a whole new sample every year.

The advantages of the approach taken in China are that it is decidedly skewed to the top end of the market where brand image building occurs most acutely and that it is the same styles of restaurant (not the same restaurants exactly) that are being compared.

This gives us, arguably, a more accurate read of what China's top sommeliers and fashion forming restaurants are thinking, albeit that those outlets are self-selecting. If given a choice, we would use our usual approach in China as well. The reality is, however, that there simply is no other data. Even leading international hotel groups tend not to publish their wine lists.

How different is the spread of the participating outlets relative to the various market's potential? As a proxy for this, we have used each province's share of household disposable income and compared that with where our wine listings come from.

In the Central China region, the major difference between the household income figure and the proportion of lists submitted results from the concentration of many of the country's best restaurants around Shanghai.

It is hoped that over time, more restaurants from those outlying regions will participate. Expansion into 2nd and 3rd Tier cities is critical for the growth of wine as an idea in China. For now, we anticipate that the distribution of participating restaurants reflects overall places of consumption of top end wine.

The same is true in the North but to a lesser extent. Provinces surrounding Beijing like Tianjin, Shanxi and Hebei are represented roughly in proportion to their share of household disposable income in 2018. In 2019, however, fewer entries were received proportionately.

In the South, Hong Kong and Macau are overrepresented. Whilst an argument could be made about their influence over the mainland market, that tends to be driven by Beijing and Shanghai today, much more so than 10 years ago. With the loss of the advantage Hong Kong had with tariffs, compared to mainland China where certain supplier countries are concerned, Hong Kong's influence is only likely to further diminish.

What those listings for Hong Kong and Macau do allow us to do is to perform a thorough analysis of each market. It is normal practice that we upweight certain markets in order to do this, in any case. As examples, we upweight South and Western Australia in our Australian sample and Scotland and Northern Ireland in our UK sample in order to perform statistically reliable analysis of those regions in those markets.

The only significant issue that we had in 2018, in terms of the sample's representativeness, is the underrepresentation of the Guangdong area. This was rectified in 2019 and a good number of the Guangdong area's best participated.

Issues not related to the sample include, as you would expect, poor representation in more remote regions. Although Tibet and Yunnan did participate, the wine producing provinces of Xinjiang and Ningxia participated this year for the first time which is encouraging. Top quality restaurants, either as part of wineries' tourism offerings or independently, are a vital part of the future for those regions and the success of the broader idea of wine in China.

How big is the market?

The volume of wine drunk in China is more than 200 Million Cases per annum, according to the OIV. That still only represents around 1.35 litres per head, per annum. On average, mature wine producing countries drink over 20 times that amount, per head of population.

Despite the explosive growth of imported wine in recent years, whether grape wine makes it as an everyday beverage in China still hangs very much in the balance. It didn't in Japan. From Baijiu to Scotch whiskey drunk mixed with green tea, in China, as in Japan, there is a plethora of additional competing products. The whole way in which food and wine is consumed in China, is very different to the rest of the world.

For now, at least, China is rapidly becoming the world's most important wine market. It already is for major supplier countries like Australia. The On-Premise is the absolute key to ensuring continued growth. Why?

It is estimated that the On-Premise is the final point of consumption for over two thirds of wine in China. That means a potential total Chinese On-Premise consumption market of around 130 Million cases.

That doesn't mean that all that wine is sold at full price by the host venue. The IWSR estimate that only 33% of wines sales are made by On-Premise venues. Despite outsourced sommelier services like 1919 and rapid response online retailer companies delivering to restaurants, we suspect that number is a little low.

The issue is that some jurisdictions have made it illegal for outlets to prevent people bringing their own beverages. This has had a big impact on both outlets and the wine distributors that supply them. We anticipate that this will be yet another of many factors putting price and margin pressure on wine sales.

The very high price of wine, compared to other markets, is a significant impediment to growth. The boom days are certainly over for those involved in on-ground distribution. The market will continue to grow, more or less quickly, but with ever increasing price, margin and channel pressure, especially as highly price-transparent online sales now make up over 30% of Off-Premise sales in China.

For now, at least, China is the most profitable and fastest growing major market globally for the majority of supplier countries. With better controls over COVID than any of the top ten largest countries, we remain hopeful. Nothing, of course, is certain. Broader political tensions remain a major threat.

Paths to market?

Shanghai alone has approximately 300 wine bars which feature extensive lists of imported wine. Most second and third tier cities have networks of informal wine clubs, centred on the wines marketed by key local distributors. In addition to fine dining restaurants, premium imported wine is consumed in banquet halls, hotels, VIP clubs and company canteens in China.

Much has been made of the differences in paths to market in China. There exists the distribution chain via importers to wholesalers and on to individual On-Premise outlets that is common to all markets. This part of the market can be said to have more similarities than differences when comparing to every other market.

Then there are what some term ‘non-traditional’ paths to market involving networks and ‘Guanxi’, that aspect of Chinese culture that neither ‘connections’ nor ‘relationships’ adequately defines.

The existence of these networks, where wine is concerned, is only partly due to culture. It is also about wine having been a new and extremely fast-growing business sector attracting newcomers to service a market that traditional suppliers had struggled to keep up with. That is changing now.

These informal networks also thrive due to a lack of trust in products both from a counterfeit and a product integrity / purity point of view. Hence the huge increase in Chinese Daigou shops in the cities of the most favoured, source countries around the world.

Another factor that has contributed is governments making it a requirement to transact business with local companies in order to gain a migratory visa. This has further distorted the market.

Some of these networks involve sustainable buying groups supplying large numbers of established outlets. Others, especially those involved in supplying State operated enterprises, disappeared due to the Chinese government’s crackdown on corporate gift-giving in 2012 otherwise known as its ‘Austerity Measures’.

For all of the reasons above, many hopeful exporters fail because there is simply no second order. Suppliers must, therefore, be very careful with whom they are dealing with, from a professional point of view perhaps more so than an ethical one. Most of these failed businesses initiatives started with good will and good intentions.

Torres China estimates that that formal / traditional route to market is now 65% and informal ‘liver building’ paths to market, 35%. They say that it was the other way around just 7-8 years ago before those ‘Measures’.

What effect is all of this noise, the fake products, the shoddy nock offs, the ‘innovative’ paths to market having on the market that we are about to measure?

As you will see, our research in unequivocal. This market loves brands. The mass of research into luxury products is very clear on that. If you visit any good supermarket in China (or even hypermarket) you will see what we see on wine lists. The best representation of quality brands (and corresponding lack of second-rate labels) that you will find anywhere. This extends right the way through the database used in this report.

Things will get tougher in China, of that there can be no doubt, but for now, there is no better place, globally, to position a wine brand for growth, than the Chinese On-Premise.

If you want to be successful in China On-Premise, you'll need top quality distribution partners. The big question is – "Which ones?"

According to our analysis, The Top 30 On-Premise distributors in China for 2019 were responsible for 92% of all listings attributable to individual suppliers. This dominance by the lead players is what we find in all markets that we measure. 70-75% for the Top 30 is more like the norm, however, in mature markets.

Knowing who this Top 30 are and how they operate is therefore going to be critical. The biggest single mistake we see suppliers making is underestimating the impact of picking the right (or wrong) partners.

To be a good On-Premise distributor, you first need to have a strong enough portfolio to be able to command attention.

The real acid test, however, is listings per brand. From the supplier's point of view, at least, there is absolutely no point in being part of a giant portfolio if the distributor doesn't achieve wide-ranging distribution for you.

The other key task of the distributor is to get restaurants' customers trialling products and to move volume through attaining wine by-the-glass listings.

The distributor should also be able to up-sell and cross-sell alternative formats such as half bottles, magnums and multiple pouring sizes to optimise list coverage. Brand visibility and recognition creates brand strength, especially in a market like China where 'face' during formal and celebratory occasions is so important.

A good distributor must be able to adapt to what is a very fast changing market in order to have the right portfolio to keep their trade customers happy. They must also be able to manage cashflow in one of the more difficult sectors in which to do so and particularly during these uncertain times.

Above all, a great distributor needs to be able to produce results for quality suppliers. Without them and the brands your joint customers believe in, there is no sustainable business, only the commodity trading that all suppliers and their partners should fear.

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