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Marketing U.S. Wine in China

Report Categories:
Wine

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Report Highlights:
The wine market in China is growing rapidly and is highly competitive. While U.S. wine exports to China continue to increase at double digit rates, our share of China's wine market is falling due to aggressive promotion by our competitors. American wines are premium products, but still relatively unknown to Chinese wine consumers.

Introduction

The wine market in China is growing rapidly and is highly competitive. U.S. wines are generally not known and the U.S. share of the wine market continues to slide in the face of aggressive promotion by our competitors. Our wines are generally premium products and should be priced as such when appropriate. But neither our industry nor most individual wineries have been willing or able to put in the resources necessary to market a luxury product. The following report was commissioned by the Agricultural Trade Office in Shanghai, China and was written by Kate Chan Research. It provides a valuable perspective on the wine market and how U.S. wines and the U.S. wine industry should go about marketing their products in China.

Notes
1) In this report, the term **"wine"** refers specifically to still grape wine unless otherwise indicated- examples include "grape based alcoholic beverage", etc. 2) The term imported **"grape based alcoholic beverage"** includes sparkling wine, still grape wine, vermouth and spirits. 3) China's imported (still grape) wine accounted for approximately **93%** of China's total imported grape based alcoholic beverage. This report is mainly focused on "wine" – still grape wine.

Executive Summary

Market Position

Imported wines are identified as luxury/high end goods in China. While imported wines are not necessarily considered luxury products in the U.S.A and in Europe, they are viewed as such in China. Due to their relatively high price they reach a wealthy clientele. By definition they are a relatively high-priced, identity or status symbol of an elite/wealthy group, etc and have some high quality characteristics. Therefore, American wines need to position themselves as (mid high to) high end in China. Most importantly, the American wine industry needs to promote itself jointly with American wine importers/distributors in China.

Reasons

Basically, there are three main reasons:

1. With the rapid development of the wine industry in China, the Chinese will know about quality wines sooner rather than later - like many currently developed countries. The development pace will be faster in China than in previously developed countries;
2. Imported wines are considered to be a luxury product in China, and will be undoubtedly welcomed by Chinese luxury consumers. This group of customers, currently estimated at 169 million people, are typical target customers of American wines;
3. The initial impression is significantly important, especially for American wines in China. Similar to the French market positioning, "American wines" should position themselves as a high end brands. This will help develop a image and better sales in the Chinese wine market.

More detailed information is presented in the following sections.

Summary

China is changing rapidly and developing preferences for particular products and for products from certain countries. New world, including American, wines are emerging along with the development of the wine consumer. The Chinese wine industry continues to develop rapidly. Chinese wine consumption reached approximately 1.4 billion liters and 36 billion RMB in both volume and value in 2010. Imported wines accounted for approximately 20% in volume, with an AAGR of approximately 60%. By 2015, the market share of imported wines (including American wines) is expected to be approximately 30% to 45%. Generally, there are significant opportunities for American wine companies wishing to develop their market in China.

Imported Wines & American Wines

Wine imports wines reached approximately 283 million liters and 770 million USD in volume and value in China in 2010, an increase of 60% to 70%. American wine imports grew to approximately 37 million USD, and accounted for 4.8% of the total imported wine, an increase of 42%. The United States is ranked as the number 6 wine exporting country to China.

The pricing of American and French wines is comparable in China, with American wine being 45% higher than the average. Though, interestingly, the general growth of American wines is NOT affected. This shows that the purchasing power of the target Chinese customer is high; therefore appropriate marketing activities are needed to bolster sales.

Market Opportunities

Many market participants are speculating that China may gradually reduce import tariffs on wines by 2% to 15% in the next 5 years. If that occurs, annual imported wine consumption is expected to gradually increase to approximately 600 million liters from the present 283 million liters by 2015.

Geographical Segmentation of Consumption on Imported Wines

Market sizes vary vastly across the different regions of China. The largest regions are, in order of size, East, North, and South China.

China's four largest markets for imported wines - Shanghai, Beijing, Shandong and Guangdong - jointly account for approximately 80% of total consumption (equivalent to 235 million liters). Shanghai and Beijing are the largest markets for imported wines and are about the same size. They are followed by Shandong and Guangdong.

Regulatory Market Entry Barriers

Imported wines are subject to approximately 12 Regulations and 9 specific National Standards under Chinese law. The National Standards are sometimes slightly different from international standards. This is especially true with the labelling requirements outlined in Chinese National Standards GB7718-2004 and GB10344. For detailed information, please see Chapter 3.8.

The total duty paid on wine is calculated using a compound formula that involves three taxes, as opposed to simply adding the rates together. The three rates are the consumption tax, the value added tax (VAT), and the import tax. For bottled wine total duties equate to 48.2 %; for bulk wine duties are 56 %. For detailed information, please see Chapter 3.8.2.

All necessary custom requirements and the implementation should be known, and carried out by an experienced local partner on behalf of American wine companies.

Imported Wine Consumer

Primary and secondary research conducted for this study resulted in several key findings. Approximately 70% of Chinese do not have "wine knowledge", and most Chinese wine consumers are males between 30 to 50 years old. The group of 40 to 50 year olds in senior positions is the primary target customer of imported wines. They are often businessman or government officials who drink wine at important business lunches and dinners. This type of corporate consumption often takes place in Hotels, Bars/Clubs/Karaoke bars and Restaurants. These consumers have a disposable annual income of above RMB 56,000 and work in high-income sectors. These include Finance, Software, Air transport, Tobacco, etc. These consumers are regarded as the China's upper middle class and/or highest income class, and have a total population of approximately 25 million.

Consumer Purchasing Preferences

Structured questionnaires with sales managers of imported wines, as well as extensive discussions with wine importers revealed some interesting initial findings:

- The off-trade sector is mainly characterized by INDIVIDUAL consumption, and the on-trade sector is mainly characterized by CORPORATE consumption in China.

Corporate Consumer vs Individual Consumer

	CORPORATE Consumer	**INDIVIDUAL Consumer**
80-20 Rule	80%	20%
Main Purchasing Channels	Hotels, Bars/Clubs/Karaoke bars, Restaurants	Hypermarkets & supermarkets
On and off-trade Sector	On-trade sector	Off-trade sector
Consumption Type	Corporate consumption	Individual consumption
Customer Type	B2B & B2C	B2C
Sales Type	"One to all to One"	"One to One"
Preferred Sales Approach	"VIP Membership benefits"	"Discount"
Impulsive Consumption	More	Less

Source: KateChanResearch

Note: There are channels that have a mixture of both corporate consumers and individual consumers, such as specialty wine chain stores etc.

- CORPORATE consumption generated approximately 80% of the sales revenue of imported wines, and happens mostly in the hotels, bars/clubs/karaoke bars (BCKs), and resaurants of the on-trade sector. Followed by INDIVIDUAL consumption, which mainly happens in the hypermarkets & supermarkets of the off-trade sector.

Gifting is the most important **purchasing trigger** for the INDIVIDUAL consumer. "Quality", "Taste" , etc., on the other hand, seem less important to them as compared with "gifting". **Consumption frequency** of imported wines is quite high. The Chinese INDIVIDUAL consumer purchases imported wines 6 to 10 times a year and purchases 4 bottles/time. Individual purchase reached 24 to 40 bottles per year, but the wine was still used primarily as gifts. See detailed Chapter 4.4.1

- The most chosen **price** for a bottle of imported wine is "RMB 200 to RMB 500". Of the nearly half of buyers that went for "above RMB 500", they are usually high-income INDIVIDUAL/CORPORATE consumers. Note that these Chinese consumers might not know what they really want, even if they can afford to buy almost any high-end wine. Prices are not the issue as long as it is believed that it is the market price and is compatible with the quality of the wine.

- **Brand loyalty** - Chinese consumers do not have high loyalty to one particular brand or wine, and tend to try various brands and wines.

- While Chinese consumers choose "Discount" as the most traditional, effective and preferred, **sales approach**, American wines may call for a different approach. The target customer of imported wines is the Chinese luxury consumer. They respond better to concepts like "VIP/membership benefits", and "buy one get one gift". These can both make Chinese consumers feel like a real VIP, and strengthen the high-end brand image. Research also shows many potential customers can be reached by "word of mouth". Internet forums, microbloggings (weibo) [1] , and verbal recommendations/marketing by a distributorship are also effective. Thus, from a marketing perspective, retaining existing clients is equally important as client acquisition in this growing market.

- The nationality of wine is the most **influential factor** affecting purchasing decisions of customers in China. This is followed by "Taste", "Brand", "Quality", etc. Marketing "American" wine is absolutely necessary. This requires American wine companies to effectively promote the image of "American" wine in China. The Unique Selling Points of "American" wine need to be emphasized and marketing activities need to be reinforced to gain more and optimize brand exposure for "Imported from the U.S.A".

- The majority of the interviewees suggested that American wine suppliers increase brand awareness of American wines in the market through more marketing and promotional activities, like wine tasting events, etc.

Local Partnership & Distribution

There is an old saying that - "To have a good rider with a reasonable horse is better than to have a reasonable rider with a good horse." Ideally, you want to have both a good rider and horse (importer and distributor, respectively). Or, the rider (the importer) must be good.

1, Basic Conditions

We believe that in most cases the following conditions should show the capability and competency of the local importer. (For detailed Selection Criteria of local partner, please see Appendix 7.5)

No.	Main Selection Criteria of Local Importer
1	To be a financially sound/liquid company, and have experience in the market (not start-up);
2	To have a certain budget for initial market product promotion and development;
3	To have extensive knowledge of the Chinese wine market;
4	To have access to distribution channels in the premium segment (no discounters);
5	To have relations with relevant authorities and communication channels that can positively influence wine sales;
6	To have infrastructure (IT, logistics), as well as sales and marketing force;
7	To have partners that have possible synergy or complementary products in their product range;
8	To have English language skills;
9	To be able to register/label the products for American wine companies and also handle import and customs procedures

Source: KateChanResearch

Note: Strategic Partner Search is really necessary.

2, Distribution

Successfully and effectively entering the Chinese market requires a strategic and solid partnership between the American wine companies and a successful local partner with extensive knowledge of the Chinese wine market. It also requires a strong distribution network and prioritized distribution channels.

Additionally, the ideal partner should have sound cash flow and branch offices ideally located in major cities of China - such as Shanghai, Beijing, Guangdong. The offices should be effective in developing their geographically divided markets as well as sub-tier distributors. These support the ultimate goal of covering as many locations and profitable channels as possible in China.

3, Traditional Distribution Channels

Ensuring that the local partner uses the most profitable distribution channel is a determinative factor to assure sales performance in China. Results showed that hotels, bars/clubs/karaoke bars (BCKs), and restaurants of the on-trade sector are the most important distribution channels. American wine companies and their importer will need to focus on these as a priority.

4, Emerging/Alternative Distribution Channel

The wine specialty chain store (aimed at both corporate and individual consumption) is the new fast growing channel in the Chinese wine market, and consists of four typical models as follows.

Featuring exclusivity:

1. "Straight Wine Importer + Exclusive Distributor + Online Store" (SWIEDO);
2. "Straight Wine Importer + Exclusive Distributor + Direct-owned Stores" (SWIEDS);

Featuring non-exclusivity:

1. "Importer + Exclusive Distributor + Online Store and Franchise Stores" (IEOF);
2. "Comprehensive Online Stores of Wine" (COSW).

See chapter 4.4 for more details.

It is very important to identify the right model in accordance with requirements of the marketing and sales objectives.

5, Sub-tier Distributors

Sub-tier distributors are the key sales force of American wines. The efforts of 10,000 distributors are much more effective than that of 1,000 distributors, especially in the retail business. Strengthening and developing appropriate distributorships offering more motivated "Stairs Type" margin incentives is absolutely necessary.

Competitors

Six competitors were identified in China. They are the leading domestic companies of Changyu, COFCO's Great Wall and Dynasty, and the leading importing countries of France, Australia and Chile. While some, such as the French, Australians, and Chileans, offer wines which are very similar to American wines, the others like Changyu, COFCO's Great Wall, and

Dynasty, offer slightly different quality wines and pricing. Nonetheless, these local players could compete with American wines *in some particular ranges*, being both the pricing and positioning of low and mid end, etc.

These competitors have seized approximately 50% of the Chinese wine market. They generally operate via extensive networks of distributors and constantly invest in an array of marketing and promotional activities. (For detailes, please see below.)

Leading Domestic Companies (1)

	Changyu	**COFCO's Great Wall**	**Dynasty**
Year of Establishment for Wines	1892	1980s	1980s
Market Share	19%	12%	5%
Sales Value in 2010	5 billion RMB	3.1 billion RMB	1.3 billion RMB
AAGR	18%	15.6%	12.38%
Production Capacity	200,000 tons	100,000 tons	70,000 tons
IPO	Yes	Yes	Yes
Distribution Network	29 provinces through a vast network of distributors, wholesalers, and retailers that is well over 3,000 members strong.	Reaches all parts of China.	Dynasty enlists national distributors to reach all provinces, autonomous regions, municipalities, and special administrative regions governed by China.
Market Positioning	Mid-end to high-end	Low-end to low mid-end. It has recently been experimenting with high-end lines.	Relatively high-end
Main Foreign Partnership	Joint venture with French based Groupe Castel and Canadian based Aurora Ice Wine Ltd.	COFCO purchased Château de Viaud situated in Bordeaux, France. COFCO is willing to buy wineries in the U.S.A. in the coming 5 years.	Joint venture with Remy Martin

Main Marketing Strategies:
In order to accelerate business growth and fortify market positions, their strategic focus is to leverage the brand equity and to continue to strengthen and expand distribution channels and networks by planning to establish retails shops/specialty chain stores in certain selected markets in China; evaluating appropriate acquisition opportunities and distributorships for foreign brand wines.

Source: KateChanResearch

Leading Importing Countries (2)

	France	**Australia**	**Chile**
Share of Imports	45%	19%	10%
Growth Rate in 2010	86%	53%	40%
Entry Time	1980	2002	2006
Business Model	Through Sino-French joint venture.	Partnership with Dynasty. Dynasty is willing to buy wineries in Australia.	Partnership with COFCO. COFCO bought a winery in Chile.
Prioritized Geographical Target	Starting from East as the priority, then North and South China	Starting from East China	Starting from North China
Main Local Partnership	Dynasty, Changyu, Sopexa	Austrade's 15 offices in China	Their local government in China
Main Marketing Activities in China	1, Use extensive distribution networks of local partners like Dynasty, Changyu and Sopexa; 2, Invest in local partners to orchestrate an array of promotional	1, Made its presence known through creative promotions and branding; 2, Use Austrade's support programs and financial	1, Entered a free trade agreement with China; 2, Promote the country itself whilst implement a series of promotional activities;

activities.	assistance; 3, Book tour of Australian Wines	3, Book tour of Chilean Wines; 4, Use government support

Source: KateChanResearch
Note: For detailed, please see Chapter Competitors.

SWOT Analysis

Exporting Wine to China

Strengths			**Weaknesses**
China's per capita GDP and population continue to grow as do disposable incomes. The Chinese are developing a sophisticated taste for wine. The Chinese government has promoted wine over other higher alcohol containing spirits for use in official functions.	Imported wine has a positive image as a high-quality, healthy alternative to domestically produced wines and makes an excellent gift. China's one-child policy has left a large demographic of only children, with greater disposable incomes receptive to individual taste preferences.	Import procedures for new brands and vintages are often lengthy and arbitrary. New items need up to four months to clear, so advance planning is crucial for trade shows and wine tastings. Wine education is still in its infancy. Few consumers know the value of imported wines.	Long-term commitment and personal contacts are necessary to achieve success. France has marketed its wines heavily for over ten years. Importers face a high import tax, making them less competitive with domestic wines.
Opportunities			**Threats**
Second tier and third tier cities are a large and relatively untapped market. Marketing in mid- to high-end chain restaurants is a good way to develop brand awareness and mass-market sales. Distributors and retailers are developing an online presence and increasingly offering online sales.	Bottling in China is a cheaper alternative to shipping in bottles, and wineries can still keep their foreign brand name. As knowledge about wine improves, more new specialty stores offer many high-end wines.	Many established and newly established competitors (France, Australia, Chile, Spain) could threaten U.S. potential market share. The Chinese government will enforce labeling requirements more strictly in the future.	Counterfeiting and IPR violations continue to be a problem in all industries. Counterfeit wines could lower sales and damage reputations for brands. Improving quality of domestic wine make them more competitive domestically and abroad.

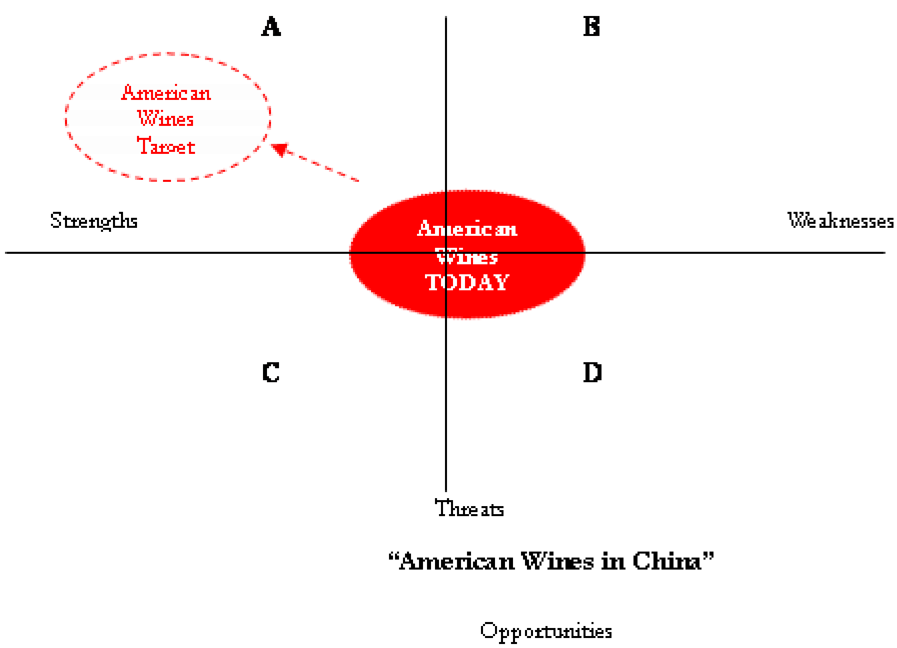
Exporting Wine to China

Source: CH9808 Report of ATO

American Wines in China

To describe the situation of American wines in China, the following SWOT analysis was conducted. Market conditions are evaluated and listed in accordance with the internal and external factors in the China market below.

	HELPFUL	HARMFUL
Internal factors	Strengths ▶ Production resources & skills ▶ High quality & supreme product ▶ Growing customer retention ▶ Country image	Weaknesses ▶ Absence of business/finance involvement ▶ Absence of marketing activities/support ▶ Poor brand awareness ▶ Poor access to distribution ▶ Unorganized development ▶ Insufficient sales & distributorships
External factors	Opportunities ▶ Market opportunities ▶ Market growth ▶ Lower tariff and business tax ▶ Changes in consumer society ▶ Existing and future partnerships ▶ High-end brand is welcomed ▶ No barriers to market entry	Threats ▶ Competition ▶ New market intruders ▶ Substitute ▶ Operational (laboring) costs increase ▶ Partner/distributor bargain power increase ▶ Various "guanxi" ▶ IPR infringement



"American Wines in China"

The SWOT analysis shows that at present American wines are located near the center of the SWOT grid covering quadrants of A, B, C and D. Results indicate that "American Wines" in China currently have slightly more weaknesses versus strengths. The weaknesses are mainly linked to missing marketing activities, brand promotion, and sufficient sales and distributorships in China. The positive side is that there is absolutely no doubt that "American Wines" are a supreme product with a number of strengths such as high quality, growing customer retention, production resources, country image, etc. These just have to be better exploited in China.

Keys to Success

"Ask not what the market can do for you - ask what you can do for the market."
The most important key in a successful export strategy to China is providing full support, especially marketing operations and sales related incentives, to local partners in the wine market. U.S. wine companies will be disappointed if they only rely on their Chinese counterparts to promote and sell their products without their own marketing involvement or financial support. This is especially true in the Chinese wine sector, where active promotions and distributor motivation – the most important sales force – can make or break a wine's chances of success.

Chinese nationwide distribution success stories tend to come after labels build upon their marketing and promotion, putting in the ground work and time for creating and developing their market.

Importers and distributors act more or less as the gatekeepers to the market, due to their allocated responsibilities (see below), based on harmonic partnerships rather than competition.

Tier	Party	Key Responsibility	Scope of Work
Tier 1	Exporters	Production & Marketing Operations	1, assure sustainable supply capability; 2, provide marketing operations; 3, promote the brand itself/or engage a third party to carry out the activities on it behalf.
Tier 2	Importers	Distribution Network Building	1, establish the distribution network; 2, expand distribution channels; 3, develop more sub-tier distributorships by region or channel
Tier 3 or more	Distributors (sales force)	Sales Network Building	1, develop sub-tier distributor by designated city; 2, develop sub-tier distributor by channel; 3, sell products to retailers; or 4, sell it to end-users;

Source: KateChanResearch
(For detailed see chapter 4.1)

The point cannot be stressed enough that the interaction with them is quintessential and directly correlated to success in China. The most important is to motivate the importer to take the initiative to develop and expand sub-tier distributorships on behalf of the exporters, so the exporters can mainly focus on marketing and promotional activities.

Conclusion

Price sensitivity is seemingly the key obstacle to American wines. However, it is the fears of unmotivated distributors that create this sensitivity. The consumers of imported wine are not particularly price sensitive. Only a series of effective incentives and marketing assistance can help. Once motivation and commitment is widely grown in distributorships, key obstacles will give way to sales opportunities.

Active promotion and sturdy distribution networks have proven effective for leading domestic companies and importing countries. In addition, current import leaders have developed strong export programs that coordinate a united marketing strategy geared towards China.

In spite of the United States' leading competitors' head start, the growing Chinese market is a good opportunity for American wines. American wine associations should work with companies together to implement an array of marketing activities on behalf of American wine companies, aiming at promoting American wines, will help American wines companies navigate their business successfully and effectively in the Chinese wine market.

Recommendations

- **Marketing Strategies:** American wines will need to develop their marketing and sales strategies. This report argues that they should adopt the successful marketing approaches of their major competitors' in China. These strategies include the following.

Item	Marketing Strategies
Market Positioning	1, Positioning American wines as (mid high to) high end; 2, Remaining with its original pricing or increasing prices slightly due to the requirements of the market, brand image, and distributors in the non-distance future;
Distribution & Sales	1, Focusing on development of strategic partnership; 2, Strengthening and expanding the extensive distribution network and channels through the successful local partner; 3, Selling more products to retail shops;
Distributorship	1, Developing and increasing sub-tier distributorships; 2, Offering more motivated "Stairs Type" margin incentives to sub-tier distributors;
Sales Channel	Focusing on the sales channels of Hotels, Bars/Clubs/Karaokes and Restaurants of the on-trade sector as a priority;
Geographical segmentation	1, Developing "American wines" brand promotion and sales primarily in both Shanghai and Beijing, followed by both Shandong and Guangdong;
Marketing activities	1, Designing a web site with local language and interests, introducing specifically American wines; 2, Releasing marketing materials on both this web site and other popular e-commerce web sites, as well as on microbloggings (weibo) [2] ; 3, Organizing "wine tasting" events emphasizing high-end; or Co-organizing wine tasting events with well-known American luxury brands; 4, Sending free wines as sophisticated souvenirs to media associates when launching new brands or tasting events; 5, Annually organizing "interactive get-together" with media and VIP wine customers;
Advertising	1, Advertising on publications via Print Media; 2, Stepping up product proliferation activities in TV shows, and running television commercials located in high-end residential and commercial elevators;
Brand Exposure & Promotion	1, Participating in Wine related Exhibitions in Shanghai, Beijing, and Guangzhou on a yearly basis. 2, Assisting leading domestic wine companies like COFCO and Dynasty in purchasing wineries in the United States; using this news to obtain optimized brand exposure through the media platform; partnering with Dynasty to develop distributorships and brand promotion; 3, Participating or sponsoring on social events especially high-end oriented; 4, Sponsoring ceremonies or PR events of American (accessible) luxury brands like COACH to promote American wines; etc.

Source: KateChanResearch

- **Brand Promotional Activities:** American wine companies will need to strategically support their local partner(s). Activities should support marketing activities, especially those focused on enhancing brand awareness, exposure and promotion, in order to assure success in China. We recommend that marketing and brand promotion related activities should be carried out, ideally by (a) third party (parties) on behalf of American wine companies for the first five years, while the local partner should focus on the sales. (Note: Marketing expenses are absolutely necessary, especially in China.)

- **Local Partnership:** American wine companies will need to initially focus on strengthening and/or finding successful and strategic long-term partners to establish a strategic, solid and harmonious partnership with. Theses partners should have extensive knowledge of the Chinese wine market as well as an extensive distribution network. Additionally, the ideal partner is expected to have sound cash flow and branch offices ideally located in the major cities of China such as Shanghai, Beijing, and Guangdong. The offices should be effective in developing their markets as well as sub-tier distributors. These support the ultimate goal of covering as many locations and profitable channels as possible in China.

- **Customer:** American wine companies will need to consider how to create good customer relationships with the target Chinese (luxury/wealthy) consumers. American wines not only need to give a very good first impression, and wine experiences, but the brand and wine need to be sophisticated The wines need to make their luxury/wealthy consumers feel special (especially feel like a VIP), and strengthen the high-end brand image of American wines in China. Marketers should strive to create benefits that can allow luxury/wealthy consumers to feel that they are receiving "VIP/membership benefits"..

- **Competition:** For the time being, KateChanResearch recommends that American wine companies avoid entering competition directly with its major competitors, but rather position American wines as a unique alternative (in high-end image, luxury conceptual-driven consumption, U.S brand for instance) as American Wine's entry strategy. American wine companies' major concern should be related to access and visibility, marketing and brand promotion, customer relationship activities, and cooperative partnership development.

Note:
End executive summary. For detailed research findings, please see the following sections.

Industry Overview

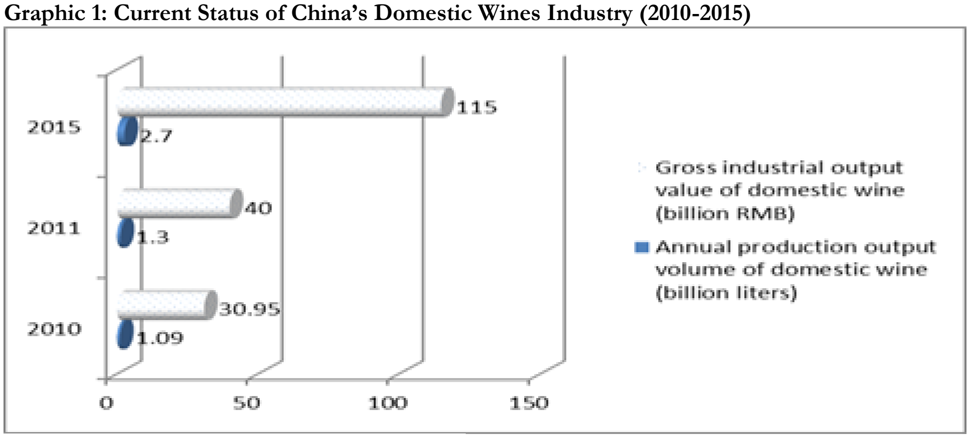
Production Output & Gross Industrial Output Value

According to statistics of the China Alcoholic Drinks Industry Association (CADIA) and the National Bureau of Statistics of China (NBSC), in 2010 annual production output of domestic wines reached 1.09 billion liters, an average annual growth rate (AAGR) of 21.78%, an increase of 119.92% from 2006 to 2010. Gross industrial output of domestic wines reached 30.95 billion RMB, an increase of 29.85%.

In 2011, annual production output of domestic wines is expected to reach approximately 1.3 billion liters, achieving the gross industrial output of approximately 40 billion RMB.

We anticipate that annual production output of domestic wines will reach approximately 2.7 billion liters and 115 billion RMB in both volume and value by the year 2015.

Graphic 1: Current Status of China's Domestic Wines Industry (2010-2015)



Source: the CADIA, the NBSC and KateChanResearch

Table 1: Current Status of China's Domestic Wines Industry

	2010	AAGR	Est. 2011	Est. 2015
Annual production output volume of domestic wines	1.09 billion liters	21.78%	Est. 1.3 billion liters	Est. 2.7 billion liters
Gross industrial output value of domestic wines	30.95 billion RMB	29.85%	Est. 40 billion RMB	Est. 115 billion RMB

Source: the CADIA, the NBSC and KateChanResearch

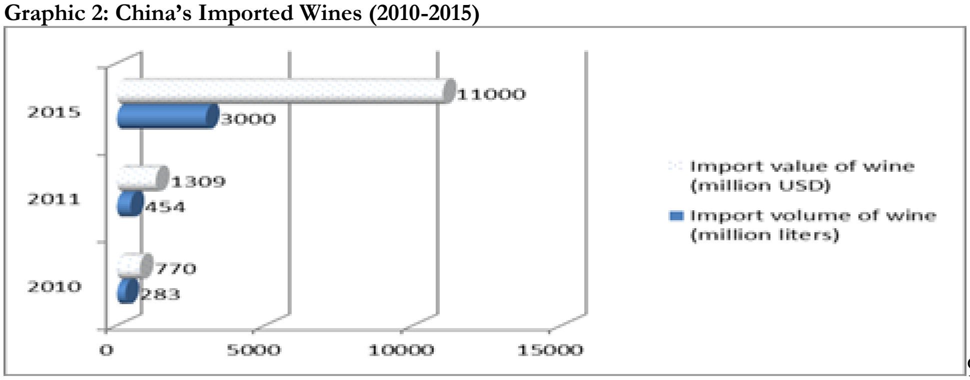
Import & Export

The findings reveal that in 2010 the import volume of grape-based alcoholic beverages [3] reached 304.85 million liters, an increase of 62.57%, and the import value of grape-based alcoholic beverages reached 1.33 billion USD, an increase of 53.44%. Among approximately 93% of which are still grape wine (wine), reaching 283 million liters and 770 million USD, an increase of 60% to 70%.

Over the same period, the export of domestic wines reached 3.93 million liters, which accounted for 0.36% of the annual production output of domestic wines, an increase of 30.16%, and the export of domestic wines reached 88.81 million USD, an increase of 159.5%.

In 2011, imported wines are expected to reach 454 million liters and 1.3 billion USD. It is anticipated that by the year of 2015, total imported wines are expected to reach 3 billion liters and 11 billion USD.

Graphic 2: China's Imported Wines (2010-2015)



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Source: KateChanResearch

Table 2: Import & Export of Wines in China

	2010	Growth	Est. 2011	Est. 2015
Import volume of wines	283 million liters	60%	Est. 454 million liters	Est. 3 billion liters
Import value of wines	770 million USD	70%	Est. 1.3 billion USD	Est. 11 billion USD
Export volume of wines	3.93 million liters	30.16%	Est. 5.1 million liters	Above 10 million liters
Export value of wines	88.81 million USD	159.5%	Est. 115 million USD	Above 220 million USD

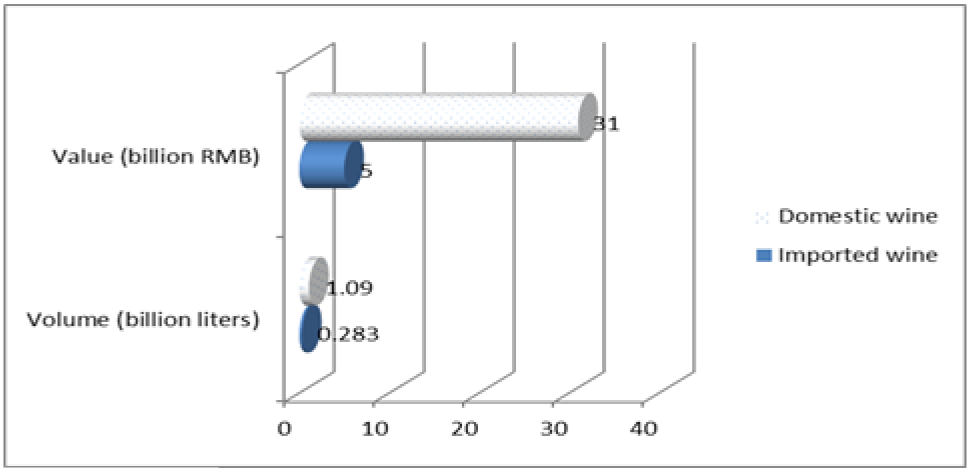
Source: the CADIA, the NBSC and KateChanResearch

Current Market Size

In 2010, the wine market size reached 1.37 billion liters and 36 billion RMB in China, of which domestic wine accounted for approximately 80% and 86% in both volume and value, reached 1.09 billion liters and 30.95 billion RMB, which increased between 20%-30%.

The imported wine, on the other hand, accounted for approximately 20% and 14% in both volume and value, and reached approximately 283 million liters and 5 billion RMB, which increased between 60%-70%.

Graphic 3: Domestic Wines and Imported Wines in 2010



Source: KateChanResearch

Table 3: The Current Market Size of Wines in 2010

2010		Total	Domestic wines	Imported wines
	Growth rate		20%-30%	60%-70%
Volume	Market size	1.37 billion liters	1.09 billion liters	283 million liters
	Market share	100%	80%	20%
Value	Market value	36 billion RMB	31 billion RMB	5 billion RMB
	Market share	100%	86%	14%

Source: the CADIA, the NBSC and KateChanResearch

Regional Market

Statistics of the China's Industrial Information Web site and the China Customs Bureau, show that the highest-producing provinces of domestic wines in China are, in order of preference, **Shandong, Jilin and Henan**. In total, they produced approximately 734 million liters - accounting for approximately 67% of total wine production- in 2010 (Shandong 34%, Jilin 19%, and Henan 14%).

The biggest import ports/regions of imported wines in China are, in order of preference, **Shanghai, Shandong, Hebei, Guangdong and Tianjin**. They totally reached 222 million liters. This equivalent to 565 million USD and accounted for approximately 78% of the total imported wine in 2010 (Shanghai 19%, Shandong 18%, Hebei 16%, Guangdong 14%, and Tianjin 12%). Due to special geographical reasons, most imports and exports of Beijing are transported through Tianjin and Hebei.

Table: Production Output and Import of Wines by Region (2010)

Region		Domestic Wines		Imported Wines	
		Production Output (million liter)	% Change	Import Volume (million liter)	Import Value (million USD)
National		1,088.80	12.38	**283**	**770**
North	Beijing	10.19	-18.57	13.11	**47.46**
	Tianjin	63.47	28.03	33.47	**52.47**
	Hebei	99.53	-11.94	44.7	**36.35**
	Shanxi	0.57	19.21	0.12	**0.71**
	Inn Mongolia	6.51	23.96	0.03	**0.11**
Northeast	Liaoning	26.78	-2.35	1.15	**5.76**
	Jilin	208.28	-4.89	0.63	**0.87**
	Heilongjiang	13.09	171.22	0.48	**1.77**
East	**Shanghai**	1.38	-2.75	54.2	236.77
	Jiangsu	2.03	84.03	5.07	**19.14**
	Zhejiang			17.2	**63.14**
	Anhui			0.28	**1.32**
	Fujian	0.09	188.39	17.36	**45.92**
	Jiangxi	1.57	0	0.29	**0.96**
	Shandong	375.44	4.79	50.38	**64.82**
Central	**Henan**	150.31	45.46	0.51	**1.44**
	Hubei	1.16	175.92	0.26	**1.33**
	Hunan	22.89	46.76	0.53	**1.77**
South	Guangdong			39.42	174.61
	Guangxi	1.91	75.36	0.65	**2.65**
	Hainan			0.53	**1.83**
Southwest	Chongqing	0.16	-64.51	0.31	**1.02**
	Sichuan	0.93	105.4	0.78	**3.86**
	Guizhou	0.06	93.75	0.02	**0.13**
	Yunnan	15.29	29.2	1.44	**1.85**
	Tibet				
West	Shaanxi	15.06	14.66	0.1	**0.68**
	Gansu	16.75	22.77	0.35	**0.52**
	Qinghai				
	Ningxia	21.89	416.93		
	Xinjiang	33.47	186.24		

Source: China's Industrial Information Web site, the China Custom & KateChanResearch

As seen in the table above, market sizes vary vastly across the different regions of China. The largest regions are East, North and South China.

East China is the largest by both volume and value, holding a retail value of approximately 430 million USD. Consumption in the Northern regions is comprised predominately of domestic product, whereas the East consumes much more imported wine.

Beyond the wine sector, the East and Northeast China have the largest gross regional production, accounting for over 67 % of the country's gross domestic product. Not surprisingly, the two regions contain China's two largest metropolitan cities: Shanghai and Beijing.

The South China market, especially Guangdong, has maturated for imported wines in the recent 3 years, reaching imported wines of approximately 40 million liters and 175 million USD. South China is regarded as the third largest market of imported wines in China.

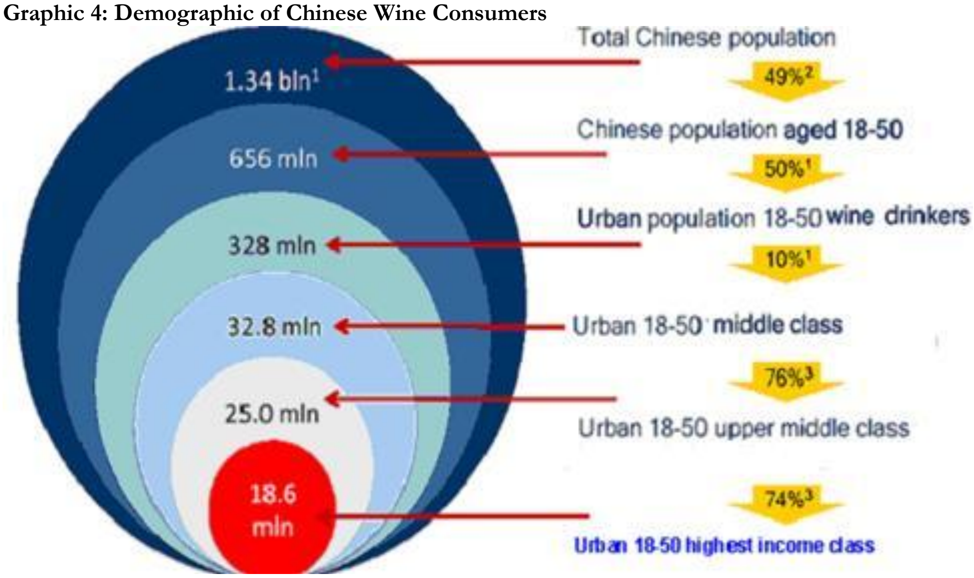
Wine Consumer Overview

Demographics of wine consumers

At present, Chinese consumption of wines reached approximately 1 liter per capita, an increase of 300% from 2006 to 2010. This accounted for one seventh of the world's average level - 7 liters per capita. The future wine market is expected to reach approximately 9.8 billion liters, among 86% will have vacancy available for market development.

According to the following Graphic-5, the total number of Chinese wine drinkers reached 328 million. They are urban Chinese at the age 18 to 50, which accounts for 25% of the total population in China.

Graphic 4: Demographic of Chinese Wine Consumers



Source: Wine Intelligence 2011, modified by KateChanResearch

Notes:

1) Middle class: personal annual income RMB 33,755 to RMB 56,130;

2) Upper middle class: personal annual income RMB 56,131 to 75,000;

3) Highest income class: personal annual income RMB>75,000.

Source of notes: China Statistic Yearbook – This figure was provided by calculation per capita.

The major domestic wine consumer is the middle class, at the age 18 to 50, which has a population of 303 million, and accounts for 23% of the total population. Their annual consumption of wines individually reached approximately 3.6 liters, equivalent to 5 bottles.

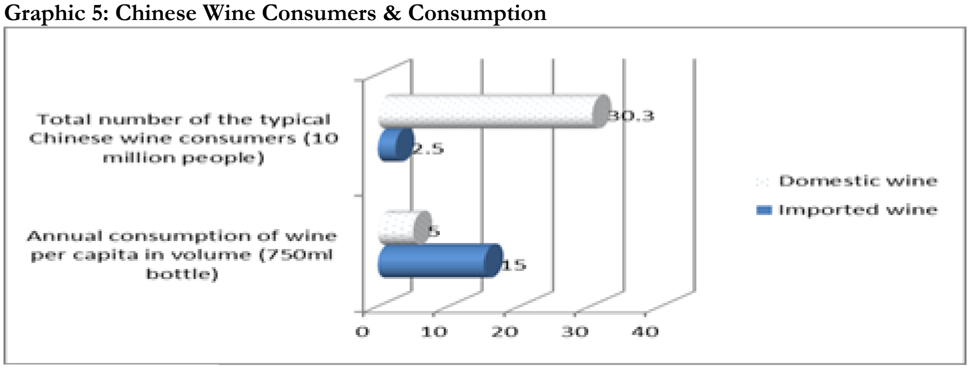
The major imported wine consumers are, on the other hand, mainly the upper-middle class and the highest income class, which at the age 18 to 50, reached 25 million Chinese people and, accounts for approximately 2% of the total Chinese population. The annual consumption individually reached approximately 11.3 liters, equivalent to 15 bottles.

Table 4: Information of the Chinese Wine Consumers

	Domestic Wines	Imported Wines
Major consumer group of wines	1) Urban 18-15 average; 2) Urban 18-50 middle class.	1) Urban 18-50 upper middle class; 2) Urban 18-50 highest income class.
Total number of the typical consumers (people)	Approx. 303 million [4]	Approx. 25 million
Annual consumption per capita	Approx.3.6 liters (or 5 bottles)	Approx.11.3 liters (or 15 bottles)

Source: KateChanResearch

Graphic 5: Chinese Wine Consumers & Consumption



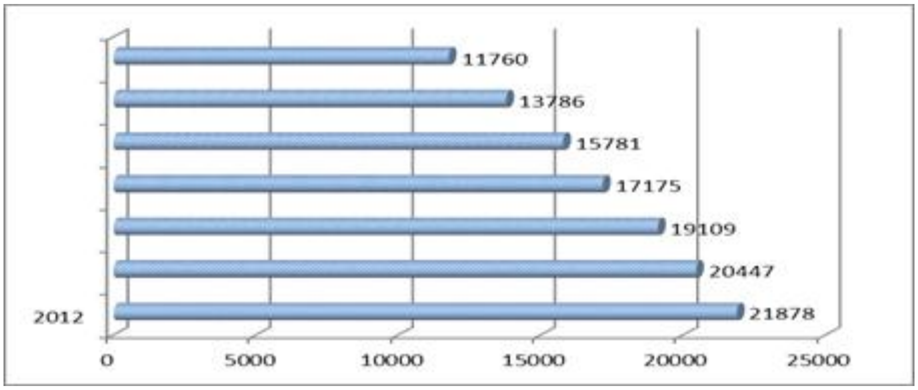
Source: KateChanResearch

Annual disposable income and wine consumers

With the rapid development of China's economy over the last few years, average salary growth of employed urbanites in Beijing, Greater Shanghai, and Guangdong increased more than 9 % annually. The rate of growth in disposable income in 2010 was 21.9%, 15.9% and 12.2% in Beijing, Shanghai, and Guangdong, respectively. .

According to the NBSC (February 2011 data), annual disposable income of urban households reached RMB 19,109 per capita in 2010, an increase of 7.8%. Consequently, annually disposable income per capita of Chinese urban households reached approximately RMB 20,000 in 2011 and is forecast to reach approximately RMB 22,000 in 2012, an increase of approximately 7%.

Graphic 6: Annuall Disposable Income per Capita of Urban Households (2006-2010)



Source: China Statistic Yearbook

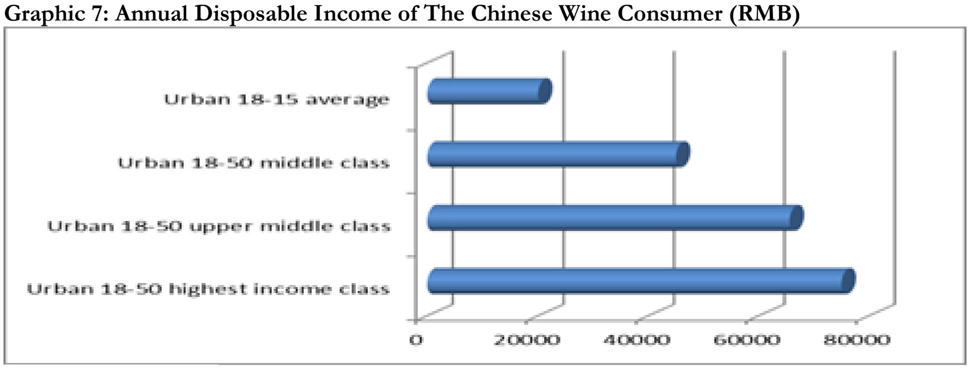
At present, the major domestic wine consumers had an annual disposable income of approximately 20,000 RMB to 56,130 RMB. On the other hand, the major imported wine consumers individually had an annual disposable income of above RMB 56,130.

Table 5: Annual Disposal Income of the Chinese Wine Consumer

	Domestic Wines		**Imported Wines**	
Major Chinese consumer group	Urban 18-15 average	Urban 18-50 middle class	Urban 18-50 upper middle class	Urban 18-50 highest income class
Annual disposable income	Ave. RMB 20,000	RMB 33,755 to RMB 56,130	RMB 56,130 to RMB 75,000	Above RMB 75,000

Source: China Statistic Yearbook and KateChanResearch

Graphic 7: Annual Disposable Income of The Chinese Wine Consumer (RMB)



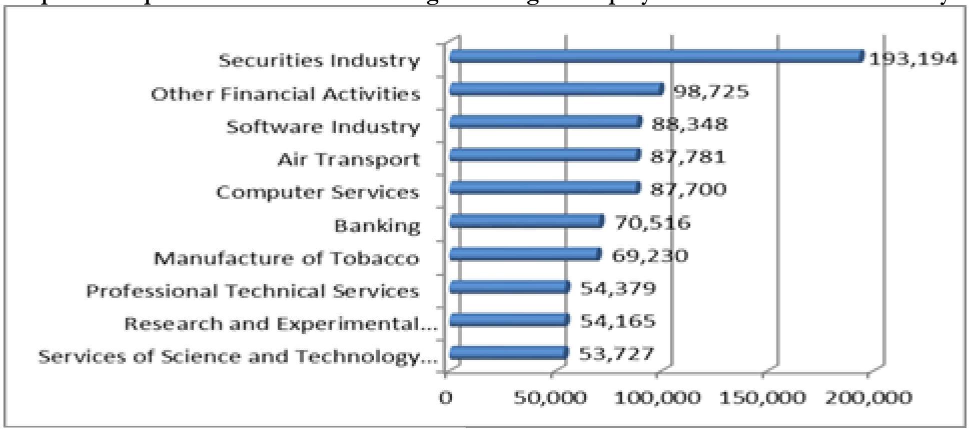
Source: KateChanResearch

We anticipate that by the end of 2015 the wine consumer is expected to have an annual disposable income of approximately 28,000 RMB to 78,582 RMB, an increase of 140%.

High-income sectors in China

According to the latest China's Statistics Yearbook, the ten highest income sectors in China are, in order of rank, finance, software, air transport, tobacco, professional technical services, research and experimental development, and services of science and technology exchange.

Graphic 9: Top 10 Sectors Based on Average Earning of Employed Persons in Urban Units by Sector



Source: China Statistic Yearbook and KateChanResearch
Note: Other Financial Activities (except banking, foreign currency exchange and insurance)

These are identified as the upper-middle class, which, including the highest income class, are the target customers of imported wines. 48% of which prefer well-known and international brands for any products. Relevant expenditures are therefore higher than the average Chinese citizen.

Annual expenditure on wines

Based on our findings and the Table 6 below, at present the average retail price of domestic wines is approximately 43 RMB to 46 RMB per bottle, and that of imported wines is approximately 77 RMB to 155 RMB per bottle. An annual expenditure on domestic wines and imported wines individually reached approximately RMB 210-230 and RMB 1,160-2,330 respectively, and accounted for approximately 1% of an annual disposable income in most cases.

Table 6: Annual Expenditure on Wines (2011, 2015)

	Domestic Wines	Imported Wines
Average price per bottle	43.2 RMB to 46.3 RMB	77.3 RMB to 155.4 RMB
Annual consumption per capita	Approx.3.6 liters (or 5 bottles)	Approx.11.3 liters (or 15 bottles)
Annual expenditure on wines per consumer in 2011	Approx. 210 RMB to 230 RMB	Approx. 1,160 RMB to 2,330 RMB
Est. Annual expenditure on wines per consumer in 2015	Est. 300 RMB to 320 RMB	Est.. 1,600 RMB to 3,300 RMB

Source: KateChanResearch

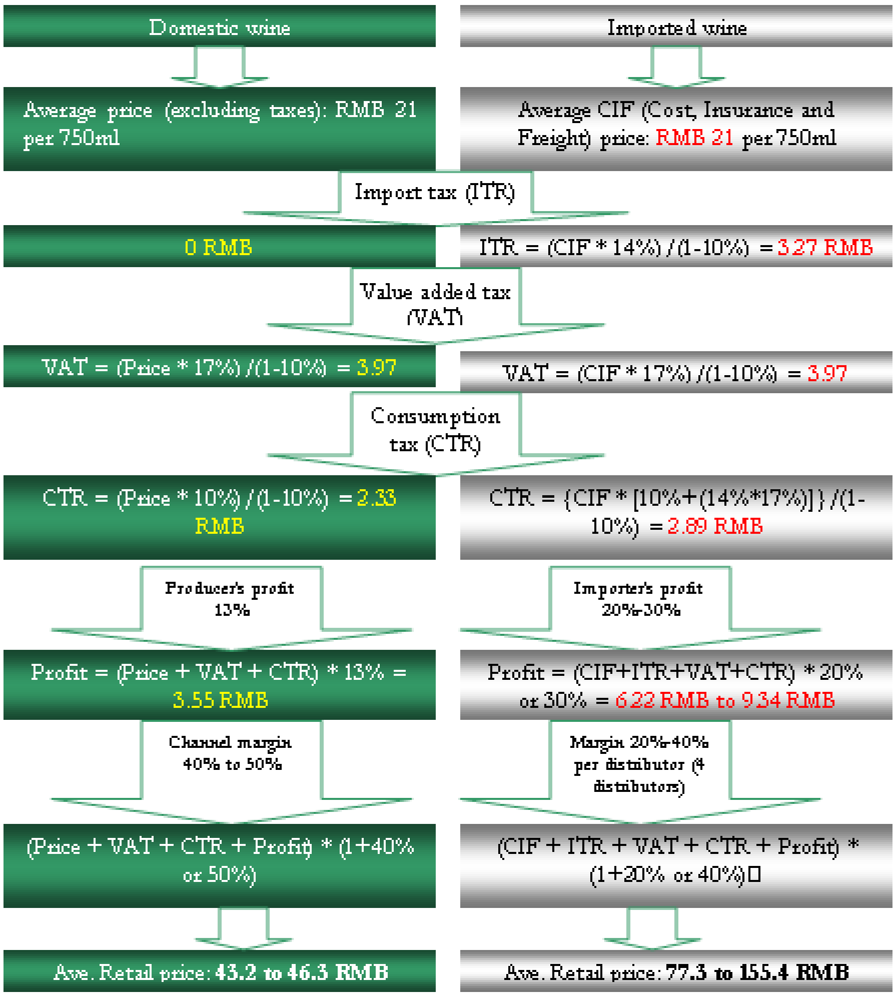
We anticipate that by 2015 the Chinese wine consumer will individually increase purchasing to 2 bottles each year, an accordance with their increasing disposable income.

Market Trends

Reduction of import duties on high-end goods

In June 2011 China's Ministry of Commerce (MOC) announced a planned reduction in tariffs on some luxury goods, including imported wines [5] . It stated that China would basically be reducing, step by step, 2% to 15% of import tariffs on high-end alcohols and other commodities as a priority. The implementation procedure and the timetable are being finalizing at the current time and will be eventually promulgated by the MOC and the National Bureau of Tax (NBT) in the near future.

Graphic 9: Average Retail Price of Domestic Wines and Imported Wines per 750ml Bottle



Source: KateChanResearch

Notes:

1) Price (excluding taxes) of RMB 21 is estimated price based on the formula of "(Total gross industrial output value/Total production output volume)*0.75";

2) CIF price of RMB 21 is estimated price based on the formula of "(Custom value/imported volume)*0.75";

3) The above mentioned price is the average retail price in most cases in China like hypermarkets; however, in some cases the final (retail) price is much higher than the average like in hotels, etc., in the Chinese market.

4) For detailed custom tariff formula, see Appendix 7.2.

Import Market

Grape based alcoholic beverages

According to statistics of the China Custom Bureau, from January to December 2010 China's total imports of grape [6] based alcoholic beverages reached 304.8 million liters, an increase of 63%, and gained 1.33 billion USD, an increase of 53%. Among the imported wine accounted for, 93% reached 283 million liters and 770 million USD, an increase of 60% to 70%.

Table 7: Status of Imports of Grape Based Alcoholic Beverages in 2010

Product name	Volume (million liters)	% Change	Value (million USD)	% Change
Total	**304.8**	**63**	**1,333**	**53**
Sparkling wine	2.7	64	28	79
Wine (bottled)	**146**	**61**	**656**	**74**
Wine (bulk)	**137**	**71**	**114**	**77**
Vermouth	0.09	11	0.23	25
Spirits	19	30	535	30

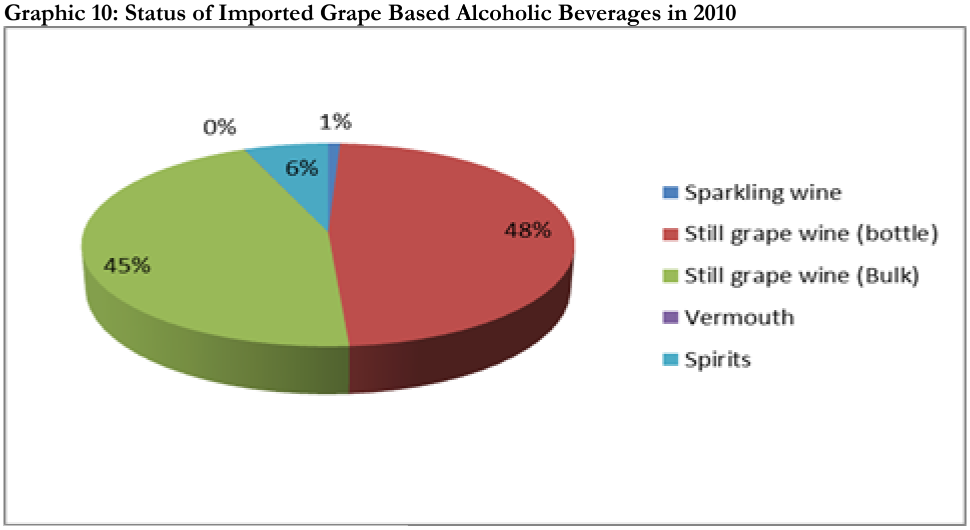
Source: the China Custom and KateChanResearch

Notes:

1) Vermouth: Vermouth and other wine of fresh grapes flavored with plants or aromatic substances;

2) Spirits: Spirits obtained by distilling grape wine or grape marc.

Graphic 10: Status of Imported Grape Based Alcoholic Beverages in 2010



Source: the China Custom and KateChanResearch

Still grape wine (wine)

China imports wines from 58 countries and regions, 6 of which accounted for 90.7% of the market of imported wines. They are, in order of preference, France (45%), Australia (19%), Chile (10%), Italy (6%), Spain (5.9%) and the United States (4.8%). France has a dominant position in the imported wine market, and exported wines valued at 346 million USD, an increase of 86%. It is the largest and oldest wine exporter to China. France is followed by Australia and Chile, whose exports to China reached approximately 147 million USD and 77 million USD respectively in 2010. For details, please see the table below.

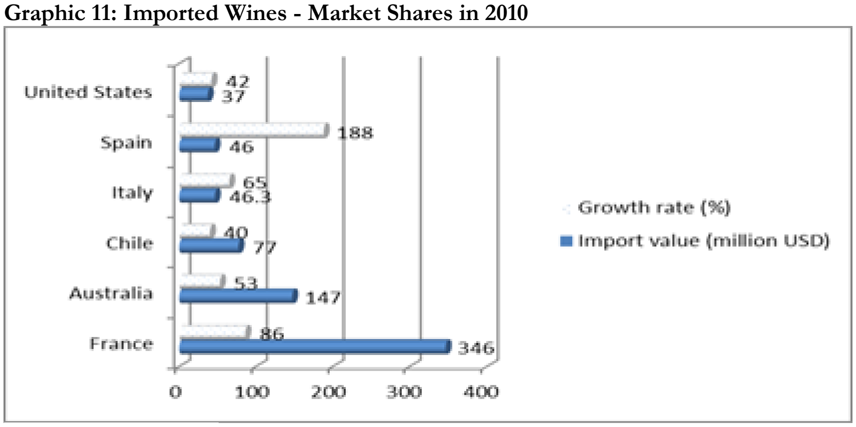
Table 8: China's Imported Wines (million USD)

Total value		Value					% Change	% Share
Rank	**Country**	**2006**	**2007**	**2008**	**2009**	**2010**	**09/10**	**2010**
0	-World-	139	258	381	442	770	74	100
1	France	29	98	150	186	346	86	45
2	Australia	27	45	59	96	147	53	19
3	Chile	21	47	57	55	77	40	10

4	Italy	12	20	27	28	46.3	65	6
5	Spain	20	17	19	16	46	188	5.9
6	**United States**	7	**11**	**19**	**26**	**37**	**42**	**4.8**

Source: the China Custom and KateChanResearch

Graphic 11: Imported Wines - Market Shares in 2010



Source: KateChanResearch

U.S. wines reached 37 million USD in 2010, an increase of 42%, a total growth of 428% from 2006 to 2010, and accounted for 4.8% of the Chinese imported wine market. The United States is ranked as the number 6 wine exporter to China.

Bottled Wine

In 2010 bottled wine accounted for 51% of the total imported wine, reached 656 million USD and 146 million liters, went up 74% and 61% respectively. Among which 90.5% is accounted by France (51%), Australia (18%), Italy (5.9%), Chile (5.6), the United States (5%), and Spain (4%).

French and Australian bottled wines in total seized 70% of the market share in 2010. Their exports together totaled 455 million USD, and went up 87% and 45% respectively. France and Australia are the two biggest exporters of bottled wine to China.

Exports of U.S. bottled wines, on the other hand, reached 32 million USD, an increase of 52%, and a total increase of 540% from 2006 to 2010. The Unites States is the 5th largest exporter of bottled wine to China.

Table 9: China's Imports of Bottled Wines (million USD)

Bottle [7] value		**Value**					**% Change**	**% Share**
Rank	**Country**	**2006**	**2007**	**2008**	**2009**	**2010**	**09/10**	**2010**
0	-World-	77	184	276	377	656	74	100
1	France	29	83	127	181	339	87	52
2	Australia	17	26	55	80	116	45	18
3	Italy	8	18	22	23	39	70	5.9
4	Chile	4	8	14	24	37	54	5.6
5	**United States**	5	**9**	**15**	**21**	**32**	**52**	**5**
6	Spain	6	12	12	14	26	86	4

Source: the China Custom and KateChanResearch

Bulk Wine

In 2010 imports of bulk wines reached 137 million liters and 114 million USD China, increases of 71% and 77%, respectively. Bulk wine imports grew 115% from 2006 to 2010. Out of this, 96% was seized by Chile (35%), Australia (27%), Spain (18%), Italy (6%), Spain (6%) and the United States (4%).

1) Import value

Chile is the largest exporter of bulk wines to China, and accounts for 35% of the market share. Its' exports reached 40 million USD, an increase of 29% in 2010 and a total growth of 135% from 2006 to 2010. Chile was followed by Australia and Spain, whose total exports reached approximately 31 million USD and 20 million USD respectively. In 2010 Chinese imports of Australian bulk wine increased by 94%. But this was dwarfed in percentage terms by the 900% increase in Chinese imports of bulk Spanish wine. Spain became the third largest exporter of bulk wines to China, right behind Chile and Australia.

Table 10: Import Value of China's Bulk Wines (million USD)

Bulk [8] value		**Value**					**% Change**	**% Share**
Rank	**Country**	**2006**	**2007**	**2008**	**2009**	**2010**	**09/10**	**2010**
0	-World-	53	60	84	65	114	75	100
1	Chile	17	38	43	31	40	29	35
2	Australia	10	8	4	16	31	94	27
3	Spain	14	5	6	2	20	900	18
4	Italy	4	2	4	5	7.3	46	6
5	France	2	4	7	5	7	40	6
6	**United States**	**1**	**2**	**4**	**4.7**	**4.9**	**4**	**4**

Source: the China Custom and KateChanResearch

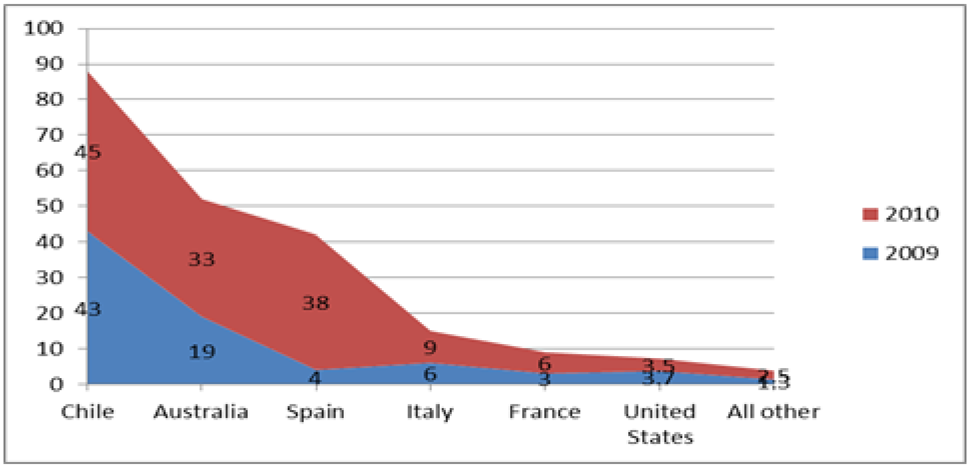
U.S. bulk wines, on the other hand, reached 4.9 million USD, an increase of 4%, and total growth of 390% from 2006 to 2010. However, the current growth (4%) is less than the AAGR of 78%. This implies that the growth of U.S. bulk wines slowed down last year.

2) Growth of Import (Volume)

In 2010, the 6 largest exporters of bulk wines to China were Chile, Spain, Australia, Italy, France and the United States. These countries accounted for 99% of the bulk wines shipped to in China. Chile, Spain and Australia are the Top 3 exporting countries of bulk wines.

Spanish bulk wine imports reached 38 million liters, up 850%, and surpassed Australia to become the number 2 importing country of bulk wines to China in 2010. This is mainly attributed to its low pricing, as the average price of Spanish bulk wines (0.54 USD/liter) is 75% less than the average price of Australian bulk wines (0.96 USD/liter).

Graphic 12: 2009-2010 Major Exporters Past and Present (million liters)



Source: the China Custom and KateChanResearch

Table 11: China's Bulk Wines Import Volume (million liters)

Bulk volume		**Volume**		**% Change**	**% Share**
Rank	**Country**	**2009**	**2010**	**09/10**	**2010**
0	-World-	80	137	71	100
1	Chile	43	45	5	33
2	Spain	4	38	850	28
3	Australia	19	33	74	24
4	Italy	6	9	50	7
5	France	3	6	100	4
6	**United States**	**3.7**	**3.5**	**-5**	**3**

Source: the China Custom and KateChanResearch

The U.S. only exported 3.5 million liters of bulk wines, a decrease of 5%. Some believe that the decrease was attributed to the import price of U.S. bulk wines (1.39 USD/liter), which is 45% higher than the average price (i.e. 0.96 USD/liter), and is almost 100% higher than the Spanish pricing. The market share of U.S. bulk wine shrank marginally this year.

Regulatory Market Entry Barriers

Major regulations and standards

There are basically five (5) Rules and Regulations and two (2) National Standards that are directly related to imported wines that U.S. wine companies should comply with. They are as follows:

Relevant Rules & Regulations

Relevant rules and regulations

- People's Republic of China on Import and Export Commodity Inspection Law [9]
- People's Republic of China Food Hygiene Law [10]
- Frontier Health and Quarantine Law of People's Republic of China [11]
- Rules for the Implementation of Frontier Health and Quarantine Law of the People's Republic of China [12]
- Laws of People's Republic of China on Product Quality
- National Standard: GB 15037-2005 [13] : General Standard for the Labeling of Prepackaged Alcoholic Beverage
- National Standard: GB9685 2008: Hygienic Standards for Uses of Additives in food containers and packaging materials [14]

Source: KateChanResearch

In terms of Articles of 8, 12, 13 and 30 of the *People's Republic of China Food Hygiene Law* states that imported foods, food additives and containers, packaging, utensils and equipment used for food must conform to the national hygiene standards [15] and the hygiene control regulations.

The above-mentioned imports shall be subject to hygiene supervision and inspection by the customs agencies for hygiene supervision and inspection of imported foods. Only those proved to be up to the standards through inspection shall be allowed to enter the territory. The Customs authorities shall grant clearance of goods on the strength of the inspection certificate.

In the absence of the national standards for such imports, the importer must provide the hygiene evaluation data prepared by the health authorities or organization of the exporting country (region) to the custom agencies for hygiene supervision and inspection of imported goods for examination and inspection and such data shall also be reported to the administrative department of public health under the State Council for approval.

Registration Procedure:

No.	Authority	Procedure	Time
1)	Municipal Entry-Exit Inspection and Quarantine Bureau	Hygiene supervision and inspection of imported goods.	5 working days
2)	Municipal Custom Bureau	Clearance of goods on the strength of the Inspection Certificate	1-5 working days

Source: KateChanResearch

Notes:

1) In practice, the degree of enforcement and specific benchmarks may differ from the written regulations. U.S. exporters are suggested to allow Chinese importers to coordinate customs and other regulatory requirements.

2) For contact information of The Entry-Exit Inspection and Quarantine Bureau and the Ministry of Health please see appendix 7.7.1.

Furthermore, imported wines are also subject to specific National (chemical) Standards - < GB 15037-2005 [16] : General Standard for the Labeling of Prepackaged Alcoholic Beverage> under the Chinese law. Note that at some points the National Standard is slightly different from the international standards, especially on labeling requirements that are outlined in the Chinese National Standards of GB7718-2004 and GB10344. For detailed information, please see **Appendix** 7.1**.**

Custom regulations and tariffs

Two Regulations are related to the China Custom tariff for imports to China, they are as follows:

Relevant Rules & Regulations

Relevant rules and regulations
• Regulations of People's Republic of China on Import and Export Tariff [17]
• Custom Laws of People's Republic of China [18]

According to the *Customs Tariff of Import & Export Commodities of People's Republic of China,* custom tariff is based on not only the nature of the product but also on its country of origin. It is necessary to know that the United States falls under the Most Favoured Nationals (MFN) Tariff Rates [19] . Relevant tariffs are listed as follows:

Table 12: Custom Tariff on Wines

Tariff Item	**Product Name**	**Import Tariff**	**Export Tariff**	**VAT**	**Consumption Tax**	**Unit**
		M.F. N (%)	**(%)**	**(%)**	**(%)**	
22.04	Wine of fresh grapes, including fortified wines; grapes must other than that of No. 20.09 – Fruit juices (including grape must)					
2204.1000	-Sparkling wine -Other wine; grape must with fermentation prevented	14	0	17	10	Litre

	or arrested by the addition of alcohol;					
2204.2100	-In containers holding 2L or less	14	0	17	10	Litre
2204.2900	--Other	20	0	17	10	Litre
2204.3000	--Other grape must	30	0	17	10	Litre

Source: http://www.china-customs.com/customs-tax
Notes:
1), M.F.N: The Most Favoured Nation (MFN) Tariff Rates
2) For contact information of the China Custom, see appendix 7.3.2:

The total duty paid on wine is calculated using a compounding formula that involves all three taxes, as opposed to simply adding the rates together. The three rates are the consumption tax, the value added tax (VAT), and the import tax. For bottled wine, total duties equate to 48.2 %; for bulk wine duties are 56 %. Additional information on import duty and tax calculation can be found in **Appendix** 7.2.

Other relevant regulations and standards

Additionally, there are seven relevant regulations and seven standards related to the wine exports to China, they are as follows:

Relevant Regulations

Relevant rules and regulations
• Food Safety Law of the People's Republic of China [20]
• Law of the People's Republic of China on Protection of the Rights and Interests of the Consumers [21]
• Advertising Law of the People's Republic of China [22]
• Standardization Law of the People's Republic of China [23] and its Implementation Regulations
• Measures for the Administration of New Varieties of Food Additives [24]
• Provisions on the Supervision and Administration of Production of Food Additives [25]
• AQSIQ's Decision on Changes <Food Labeling Regulations No. 129 Announcement> [26]

Source: KateChanResearch

National Standards

Standards
• GB 2758-2005: Food Safety Standard on Fermented Alcoholic Beverage [27]
• GB 2760-2011: China New Food Safety National Standards for Use of Food Additives [28]
• GB 2762-2005: Maximum Level of Contaminants in Foods [29]
• GB 7718-2011: Labeling of Prepackaged Foods [30]
• GB 10344-2005: Labeling of Prepackaged Alcoholic Beverage [31]
• GB 12696-1990: Hygienic Specifications of Factory of Wine [32]
• GB/T 4789.25-2003: Microbiological Examination of Food Hygiene-Examination of Wine [33]

Source: KateChanResearch

Distribution and Consumer Research

Distribution Channels of Wine

In the Chinese wine market, there are basically 7 main distribution channels. They are hotels, restaurants, bars & clubs, institutional foods, hypermarkets and supermarkets, specialty stores and others (i.e. online stores). In most cases, the major four in these seven distribution channels totally consumed (domestic and imported) wines of 1.2 billion liters and accounted for 84% of the total sales volume of wines in China. They are (in order of preference) hypermarkets and supermarkets, hotels, restaurants and bars & clubs & karaoke bars (BCKs). They are the four most important wine distribution channels in China.

Channel	Distribution (%)	Volume (million liters)
Hotel	20	280
Restaurant	15	210
Bar & Club & Karaokes (BCK)	15	210
Institutional food	3	42
Hypermarket and supermarket	34	476
Specialty store	9	126
Other	4	56

Table 13: Distribution by Channel

Source: KateChanResearch

In addition to the seven main channels, there are also additional channels that are growing rapidly in the Chinese wine market. (Note: We cover two channels additional channels in the appendices.)

Relevant fast growing channels:

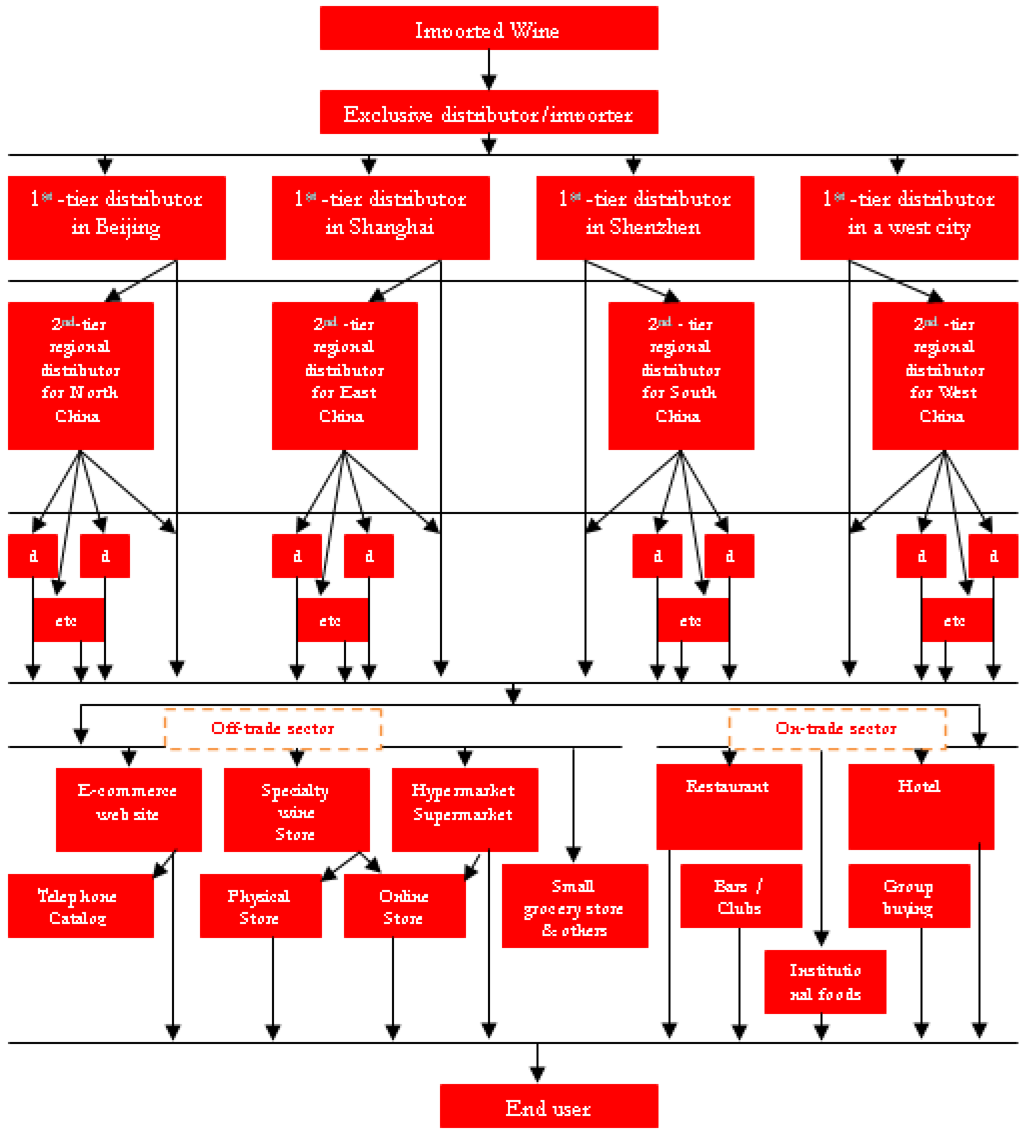
- The gray channel, please see Chapter 7.4.
- The group-buying channel, please see Chapter 7.5.

Traditional Distribution Structure of Imported Wine

While marketing and sales activities are important, it is commonly believed that the distribution structure and network are critical to success in China. This is especially true in the foreign wines business.

Top-notch wine importers & exclusive distributors are commonly characterized by having established (or are establishing) an optimized distribution structure (see below ideal structure) with an extensive distribution network. This allows them to yield better sales performance on behalf of their represented brands and to navigate business successfully and effectively in China.

Graphic 15: Traditional Distribution Structure



Source: KateChanResearch
Note: "d" stands for sub-tier distributor

In the case studies of three largest wine importer companies in the following chapter, our findings show that they adopted this distribution structure. These players strategically chose fine wine exporters and act as their exclusive distributor for all of Chinese. They use branch offices located in major cities to individually develop regional markets and sub-tier distributors. These strategic branch offices then partner with strong local companies (sub-contracting) to have sufficient distributors to reach end customers in third tier cities as well as more remote places. Subcontract distributors are provided with specific sales target and location coverage of designated distribution channels - such as speciality stores, hypermarkets, supermarkets, e-commerce online stores, hotels, restaurants, bars & clubs, etc. This serves the ultimate end goal of covering as many locations and channels as possible in China.

Each-tier of distributors has at least two (2) main responsibilities. One is to develop sub-tier distributors to cover other geographic locations. The other is to market and sell the products in its own territory market through as many designated channels as possible to finally reach the sales target specified by the top-tier distributor or the Company.

In this structure it is crucial for the company to strategically optimize its retail pricing in accordance with the cost structure of each channel. For the same wine there shouldn't be a big difference in the retail price between physical stores and online stores. Similarly within China, while there are huge differences in general price levels between different cities (east-west, rural-urban), the prices should be somewhat uniform, otherwise arbitrage opportunities could arise and the Chinese are very good at exploiting these through internet channels such as Yesmywine.com. Varied pricing can easily create competition and conflict between different sales channels for the same product. Eventually, this will negatively affect sales in general. Therefore, to better ensure maximized benefit and profits among the company, the distributors and the channels in the market, strategic pricing is a must. (Note: strategic pricing can be used as a incentive to motivate sub-tier distributors.)

According to interviews with a number of successful wine importer companies, the **three main sales/distribution channels in China are, in order of preference, hotels, bars, clubs & karaoke bars (BCKs), and restaurants, which all belong to the on-trade sector.**

Taking ASC, Summergate and Aussino as examples (see below table), more than 20% of the sales revenues are actually yielded in hotels. ASC alone sold 60 million bottles (10% are American wines) through hotels. Followed by the channels of BCKs and restaurants, approximately 30% of the sales revenue of each company is yielded in these two channels.

Table 14: Percentage of Revenue Yielded by Channel in 2010.

Company	**On-trade Sector**			**Off-trade Sector**	
	Hotels	Bars, Clubs & KTVs	Restaurants	Hypermarket	Specialty Store & others
ASC	**70%**	30%			
Summergate	**20%**	**35%**	**20%**	15%	10%
Aussino	**25%**	**30%**	**25%**	10%	10%

Source: KateChanResearch

Consequently, **roughly 80% of the effects come from these three channels of the on-trade sector, becoming the present 80-20 rule or the Pareto Principle [34] .**

In addition, it is important to note that the on-trade sector is mainly characterized by **corporate consumption**. (See table below).

Table 15: On-trade Sector & Off-trade Sector at Present

	Most Profitable Channels	**Current 80-20 Rule**	**Consumption Type**	**Customer Type**	**Sales Approach**
On-trade sector	Hotels, BCKs, Restaurants	**80%**	Corporate consumption	B2B & B2C	"One to all" approach
Off-trade sector	Hypermarkets & Supermarkets	20%	Individual consumption	B2C	"One to one" approach

Source: KateChanResearch

In China, corporate consumption is often associated with concepts like "Sophisticated," "Generosity," "Professional Corporate Image," "High-end," etc. In many ways, the nature of imported wines, together with these three channels, provides a great combination and image, enabling corporate clientele to better enjoy the benefits underneath the products or services of these venues, even if it's costly.

In contrast to the off-trade sector, online stores and hypermarkets & supermarkets are no longer key target distribution channels for a number of successful market players for imported wines in China. There are basically two (2) main reasons:

- First of all, these two channels are the main target distribution channels to wine players positioning in the low and/or medium market, thus competition to get into these places is fierce.
- Second of all, due to pricing factors, especially of comprehensive online stores, high-end wines don't seem to have much advantage in competitive pricing as compared with low-end and/or medium-end wines. Due to budget restrictions, the typical consumer (mainly individuals) in the hypermarkets and supermarkets and comprehensive online stores is looking for cost-effective solutions. Thus high end/priced products seem less appealing.

These findings support the concept that the three most profitable distribution channels for imported wines are, in order of preference, high-end hotels, BCKs and restaurants of the on-trade sector. Corporate consumption should be regarded as the priority, followed by the off-trade sector in general. This is because Chinese consumer relationships are often achieved by "word of mouth," the basis of development of individual consumption. Thus, prioritizing distribution channels is important to success.

Emerging/Alternative Channel of Imported Wine

With the rapid development of the wine industry in China, the sales and distribution channel of specialty chain stores (of online and offline [35]) has become one of the most important channels for marketing and selling imported wines in China. Additionally, it is commonly believed that the evident advantages of specialty chain stores are: 1) Diversified varieties of wines and brands; 2) Quality assurance; 3) Professional services of wine introduction, selection assistance and tasting; 4) High-end image; 5) Wine oriented, 6) Available for both B2B corporate and B2C individual customers, etc. These specific features seem more competitive as compared with traditional retail channels like hypermarkets and supermarkets that are certainly lacking in services at this moment.

Table 16: Information of Visited Nine Specialty Store of Wine in Shanghai, Hangzhou and Ningbo (2011)

	Specialty store (En)	Specialty store (Cn)	Bottles per store per month	% of imported wine	Customer traffic (people/ hour)	Real buyer (people/ day)
1	Ruby Red	红樽坊	2,500	80%	5	10
2	9519	9519 名酒坊	1,500	60%	20	5
3	9519	9519 名酒坊	2,500	70%	20	15
4	Wangdushan	旺度山红酒庄	3,000	90%	20	4-5
5	Rhône Wine Store	罗纳河红酒行	2,000	90%	10	10
6	CASTEL Family	法国 CASTEL 家族品牌	2,000	90%	6-9	10
7	Shengxue	圣血酒庄	450	100%	10	7
8	Shessiney	雪诗尼葡萄酒庄园	700-800	80%	20-40	5-7
9	Australian Brand	澳洲品牌葡萄酒	1,000	90%	10	4

Source: KateChanResearch

In 2010, China's specialty wine stores sold 26 million liters of imported wines, an increase of approximately 50%, and accounted for approximately 10% of the total consumption of imported wines.

A number of wine market players, including wine importers and the top 3 domestic wine producers, decided to further develop specialty chain stores of wine (either online stores or offline/physical stores) across the country. As of late, brand awareness of wine stores have been increasing, especially in central and western regions (including both second and third tier cities).

Regarding specialty chain stores of wine in China, there are basically 4 typical models. They are equally segmented into two groups: one group is exclusive – in that the stores sell their represented wines only. Typical models in this group are SWIEDO and SWIEDS (see below). The other group is non-exclusive. The stores are allowed to sell all wines including unrepresented wines and other alcohols like spirits, liquors, sometimes tobacco to, typical models of this group are IEOF and COSW (see below).

Exclusive arrangements:
1, "Straight Wine Importer + Exclusive Distributor + Online Store" (SWIEDO);
2, "Straight Wine Importer + Exclusive Distributor + Direct-owned Stores" (SWIEDS);

Non-exclusive Arangements:
3, "Importer + Exclusive Distributor + Online Store and Franchise Stores" (IEOF);
4, "Comprehensive Online Stores of Wine" (COSW);

Note
In each model, we identified a known company for this case study in order to purely provide a clear picture to the reader and NOT to use it for recommendation or any other purposes in this research.

"Straight Wine Importer + Exclusive Distributor + Online Store" (SWIEDO) Model:

A typical representative of this "SWIEDO" model is ASC Fine Wines Co., Ltd (ASC). ASC is a Wholly Foreign Owned Enterprise (WFOE) that was established in 1996 and specializes in import and distribution of fine wines in China Mainland, Hong Kong and Macau. In 1998, ASC received investment from Wine Holding Co., Ltd. (WHC) of Swarovski Group. In September 2009, Suntory Wine Co., Ltd. affiliated to Suntory (Japan) Group (Suntory), acquired 70% shares of ASC with 350 million RMB and became its controlling shareholder. From then on, Suntory, as well as ASC, have taken an almost unassailable position in the field of imported wines.

At present, ASC imports and exclusively distributes 1,200 varieties of wine from above 100 wineries from 15 of the world's leading wine-producing countries. Annual sales volume of ASC reached 86 million bottles through more than 200 distributors. ASC is regarded as the leading imported wine company in China, and accounts for approximately 20% to 30 % of the national market share of China's imported wines.

Around 5% of the sales revenue is generated by specialty stores, including its online store of "asc-wines.com". The annual number of new online subscribers reached 2 million. Distribution mainly covers Beijing, Shanghai, Guangzhou, Shenzhen, Xiamen, Chengdu and Macau. Each of these cities is equipped with a temperature-controlled warehouse and distribution, and the total number of employees reached 1,200.
The companies that use this model are strongly committed to distribute and sell their represented wines. Their complete focus is on the establishment and development of the distribution network to sell their wines, rather than on the development of their own retail operations. To establish retail operations requires an enormous amount of investment, which limits the pool of companies capable of establishing stores. This model provides more opportunities for companies to use external retail channels, and creates less competition. It also allows the importer to strengthen the company and develop the market at an early developing. After having passed this stage, more investment is certainly needed if companies expect to expand.

"Straight Wine Importer + Exclusive Distributor + Direct-owned Stores" (SWIEDS) Model;

A typical representative company in this "SWIEDS" model is Summergate International Trading (Shanghai) Co., Ltd (Summergate).

Summergate, a WFOE and one of the leading wine service providers in China, was established in 1999. It specializes in importing, distributing and marketing a line-up of carefully selected global brands that are best-in-class for reputation, quality and value. Summergate's brand portfolio in Mainland China consists of more than 60 of the world's finest wineries, each carefully selected from 12 of the world's leading wine-producing countries. Summergate has offices in Shanghai, Beijing, Shenzhen, Guangzhou, Chengdu, Hangzhou, Shenyang, Macau and Hong Kong. It has developed sub-tier distributors to pursue market coverage in all major cities in China. Summergate has developed an eager and dedicated following among top hotels, restaurants and retail stores in China.

In addition, Summergate has opened four direct-owned physical stores of wine since 2009 Called "The Wine Way", they are located in Shanghai, Beijing, Guangzhou and Shenzhen. "The Wine Way" offers friendly, knowledgeable service and impeccable provenance to individual fine wine collectors and anyone who simply loves to shop for good wine. They present a broad and comprehensive selection of 450 fine wines at every price point from all corners of the World. A selection of 16 wines is available to taste from noon to 9pm. These stores are committed to sell exclusively the wines represented by Summergate.

Annual sales volume of Summergate reached approximately 10 million bottles through a total of 70 to 80 distributors. Summergate is regarded as one of the Top 10 importers and exclusive distributors of imported wines in China.

The evident advantages of this SWIEDS model also show that companies are strongly committed to distribute and sell their represented wines. Unlike the above SWIEDO model, here their focus is both on the establishment and development of their extensive distribution network to sell the wines, as well as the initial setup of their own retail operations. Normally, taking control of its own retail operations happens to relatively more successful wine providers at the rapid development stage. As mentioned, to set up retail operations requires enormous investment, not only in capital, but also management. At this point, Summergate seems a bit hasty to start its own retail operations before certain and necessary steps are taken. In one way this model provides relatively more opportunities to companies. However, in another way, it creates invisible conflicts and competition with other retail channels like external specialty stores. This could limit its development or cooperation with other possible channels at some point.
On the other hand, it shows that the objective of companies like Summergate is consumer-and-services-oriented based on high-end branding. But the model may lead Summergate to transfer its attention from sales of wines to retail operations. That is a very challenging prospect, especially from the costs point of view. This model could be very successful based on a very important prerequisite: That there is a strong and sound financial foundation and sustainably positive cash flow. High-end wine suppliers could work with them for marketing and promoting wines to consumers in the meantime. It is absolutely necessary to ensure that finance is the priority, followed by sales, marketing and distribution of the companies in this model. No one wants to see some of these internal retail stores closing down after a short period of time, which is actually happening in today's Chinese wine market.

"Importer + Exclusive Distributor + Online Store + Franchise Stores" (IEOF) Model;

A typical representative company of the "IEOF" model in the Chinese wine market is Aussino World Wines Pty Ltd (Aussino).

Aussino was established in 1996, offering over 1,000 kinds of wines from 200 wineries from 12 of the world's wine producing countries. Aussino positions itself in the medium-high end market. Annual sales volume of Aussino reached approximately 20 million bottles.

Companies in this model, like Aussino, are considered more tactical and sophisticated than the companies in the other above two models. "IEOF" companies not only market and sell their represented wines, but make franchise fees from opening franchise locations. In order to maximize benefits and profits, these companies allow other complementary wines to be sold in their franchise stores. This lets franchisers offer a complete wine and products line that cannot be achieved with their represented wines alone.

There are certain advantages and disadvantages with a partnership with companies in this type of model. An advantage is being able to make use of the existing distribution channels when the brands/wines have already been well developed in the market. On the other hand, an apparent disadvantage is that these companies always will look to market and sell their own represented wines first. Therefore, from our point of view, for new brand companies, partnerships in this model might not be the optimal solution for market development, which absolutely deserves and requires more serious commitment.

"Comprehensive Online Stores of Wine" (COSW) Model

Three typical representative companies of this model are "Yesmywine.com", "Wine9.com" and "Jiu9.com". Unlike "asc-wines.com" of ASC and "aussino.net" of Aussino, these companies are e-commerce service providers specifically set up for online wine sales. These online stores are more like a platform for wine suppliers to sell and display their wines and for consumers to buy wines in a more spontaneous way. In the meantime, these companies provide channels of education and interaction for consumers to experience and gain knowledge about wine's many aspects.

"Yesmywine.com" (YMW), is ranked as the number one e-commerce company specializing in the online sales of wines. It was launched by and belongs to Shanghai Maoshi Trading Co., Ltd (Maoshi), which was established in 2008, with registered capital of 3.23 million RMB. Maoshi has a diversified business scope that includes the import & export of foods, shoes, bags, equipment, furniture, business consultancy, wine wholesale business, etc.

In the short term many of types of these web sites are not yet profitable, however, it appears that some, including "Yesmywine.com", are emerging as leaders in this new field. These types of web sites require the development of finance, operations, logistics, and customer service operations, which definitely require large investment of time and resources.

There is a very large potential for growth in the coming years.   Established in 2008, the three-year-old www.yesmywine.com (YMW) website sells on average nearly 3,000 bottles of imported wine per day. The founder said it is the third largest retailer for imported wine in China, just after Carrefour and Metro. Its sales revenue has tripled annually over the past three years. Yesmywine.com has 400,000 active users. It is also believed that Yesmywine.com has received a 40 million RMB investment from venture capitalists. Unlike the legal limitations in the States, the commerce of wine and liquor between different provinces in China is quite smooth and straightforward. YMW is able to sell wine nationwide, with Shanghai, Beijing and Guangzhou being its major target markets. In 2010, YMW started to direct import wine from overseas, mainly from France. It imported over one million bottles in 2011 and is planning to import three to four million bottles in 2012. YMW will also handle labeling and product registration.

YMW is now looking to expand its American wine portfolio. To better educate wine lovers in China, it is partnering with "Wine Enthusiast", an American magazine, to publish its Chinese version. The first issue will be coming out in April 2012, featuring Yao Ming's wine from Napa Valley.

Many brands of wines have started to use these web sites as a marketing channel to communicate and interact with visitors and promote their wines. However, these types of web sites may not be the ideal distribution channel for high end wines. These web sites are primarily targeting sales to consumers. This generally means sales of cheaper wine. Therefore, suppliers of high-end wines to website oriented retailers need to be sure that their brands are not being used only as branding tools but are being treated appropriately. In any case, the rapid growth in online retailing in China makes it essential that retail product suppliers closely watch developments in this sector. It is very possible that on-line channels may provide great competition to traditional brick and mortar retailers in the coming years.

Consumer Purchasing Behavior and Habits (Through Distributors' Insights)

To generate insights from wine specialists and distributors on group segmentation and purchasing behavior, as well as habits and expectations of individual consumers in retail channels, we identified three typical importer & exclusive distributors and sales people from nine specialty stores in Shanghai, Hangzhou and Ningbo. (For photos of these nine stores, please see appendix 7.7.3.) Some of the key findings are that approximately 70% of the Chinese do not have wine knowledge, and most Chinese wine consumers are male, and between 30-50 years-old.

The findings show that in most cases 30 to 39 year olds are in junior positions and usually prefer domestic-wines. On the contrary, **40 to 50 year olds are in senior positions are regularly imported-wines-oriented**. The target customers of imported wines are often businessmen or government officials who drink wines at important business lunches and dinners. This type of corporate/business consumption often takes place in hotels, BCVs and restaurants, and accounted for approximately 60% of the total wine consumption in China.

There is also a significant population of drinkers of all ages and both genders. An increasing number of wine drinkers, who were introduced to wine at home, accounted for approximately 40% of total Chinese wine consumers. This is mainly individual consumption. Perceived health benefits are an important reason for drinking wine across consumer groups. Many consumers drink a glass of wine each day for this reason, and are then generally content to choose domestic wine for the time being.

Purchasing trigger

A majority of the interviewed distributors chose "**gifting**" as the most important trigger for Chinese consumers to purchase wines **in retail channels**. The remaining triggers such as "quality", "taste", etc., seem less important compared with "gifting" for individual consumers (not corporate consumers).

In the gift giving culture of China, alcohol has traditionally been a staple but usually in the form of harder liquors. Fueled by wine's prestigious image, it has increasingly become a common gift to friends, family, and business associates. Evidence of this can be found in the high sales spike around the Chinese Mid-Autumn Festival [36] and the Chinese Lunar New Year [37] , which are typically in September, and in January or February, respectively. For more information on gift giving in China refer to GAIN report CH8402

Purchasing frequency

As for the purchasing frequency of wines, Graphic 18 below shows that approximately 70% of the interviewees indicated that **imported wines are demanded on a frequent basis, around 6 to 10 times a year**. Consumption-frequency of wines is quite good at the early stage of this emerging wine market, especially of imported wines.

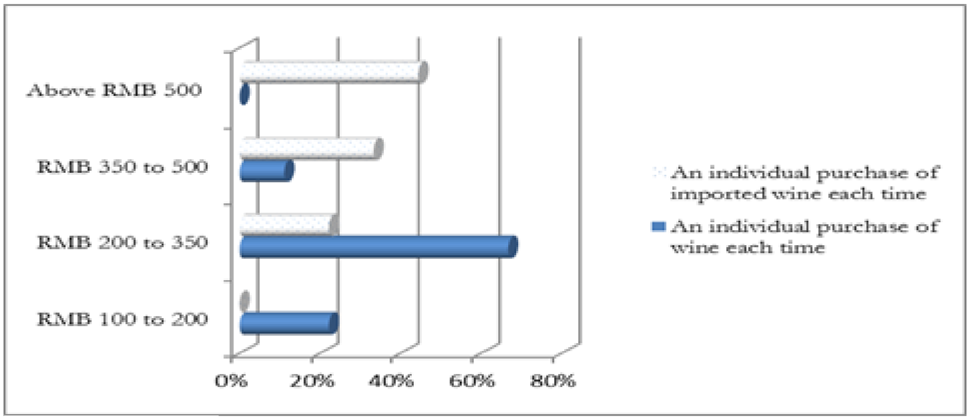
It also shows that approximately 70% of the total interviewees indicated that the Chinese consumers individually purchased around 4 bottles of imported wines each time. This means that the average individual is purchasing 24 to 40 bottles of imported wines annually, mainly as gifts.

Pricing

The Graphic below shows that approximately 90% of the total interviewees indicated that the most chosen price for a bottle ranges from 200 RMB to more than 500 RMB. 40% of them stated that most buyers went for the price of "above 500 RMB."

It is important to note that Chinese wine consumers lack wine knowledge. They certainly need more coaching in terms of interpreting wine culture and the history of wine brands, especially for emerging brands/wines. What this means is that new Chinese wine consumers might not know what they really want, even if they can afford to buy almost any high-end product. **Prices are not the key influencing factor affecting purchasing decisions of target Chinese customers**.

Graphic 20: Consumption of an Individual Purchase of Imported and Domestic Wines Each Time



Source: KateChanResearch

Brand loyalty

Chinese wine consumers like to try different varieties of specific brands and wines. This is mainly attributed to a lack of knowledge and awareness of wine and certain brands. So a number of specialty stores advocates providing wine education to Chinese customers and providing a very good first impression to these individual buyers. This is done to secure high customer loyalty.

Parameters that influence purchases

To determine the importance of various factors on purchasing decisions we conducted a qualitative survey we and weighted the criteria as follows:

1 to 8 (1 being poor and 8 being excellent).

The criteria are as follows:
❶ brand; ❷ importing country; ❸ purchasing channel; ❹ marketing;
❺ promotional sales; ❻ taste; ❼ pricing; ❽ quality;

Scores were then added, and, based on weights estimated by the interviewed sales managers of the 9 specialty stores, an average score was created as below:

Table 18: Total Score of Each Important Parameter:

Parameter	Brand	Exporting country	Purchasing channel	Marketing	Promotional sales	Taste	Pricing	Quality
Total	5.33	7.44	2.33	2.00	4.00	6.33	3.22	5.33

Source: KateChanResearch

The final ranking is as follows:

Table 19: Purchasing Preference:

Rank	Parameter	Weight
1	Exporting country	7.44
2	Taste	6.33
3	Brand	5.33
3	Quality	5.33
5	Promotional sales	4
6	Pricing	3.22
7	Purchasing channel	2.33
8	Marketing	2

Source: KateChanResearch

The most important parameters which affect purchasing decisions are "**Exporting country**" of wines, followed by, in order of preference, "**Taste**", "**brand**", "**quality**", "**promotional sales**", etc. Interestingly, "pricing" isn't the most influencing factor to Chinese wine consumers for imported wines. One of the reasons is that the consumers are in higher income brackets and positions, above age of 40. These consumers look for quality and well-known wines and brands; prices are not the key issue in purchasing decision. Evidently, this result is consistent with our findings above.

Therefore, it is necessary to note that in regards to **marketing American wines** – the exporting country and the wine itself are more important and effective than competing in or fixating on prices.

Favorable marketing and promotional sales approach.

As for where customers hear about wines, a majority (56%) of the interviewed distributors and sales people indicated that the brands/wines were mostly heard by **"world-of-mouth"** through their friends, followed by hearing about them in wine stores. Even though some wines are introduced through television commercials, posters, e-marketing materials, and promotional events, these advertising approaches were of relatively low importance when compared with "word-of-mouth."

Furthermore, approximately 78% of the interviewees indicated that the Chinese wine consumers prefer "**Discount**" as the most effective promotional sales activities, followed by "**membership benefits like buy one bottle and get one free**", which was agreed with by approximately 20% of the total interviewees.

Insights on American wines

We selected a total number of 20 sales people from the 9 assigned specialty chain stores in Shanghai, Hangzhou and Ningbo to participate in face-to-face interview meetings with a questionnaire designated and based for the evaluation and suggestions regarding American wines.

Awareness of American wines

According to the research, the brand awareness of American wines among the Chinese was poor, and 7 of the 9 specialty chain stores did not have any American wines. Annual sales of American wines in the remaining 2 stores only reached 23,000 RMB and 140,000 RMB respectively, and individually accounted for approximately less than 10% of their annual sales.

Feedback on American wines

Most of the Chinese do not recognize the unique strong points (USPs) of American Wines. This is due mainly to the fact that there are not enough motivated importers and distributors for American wines. The distributors are certainly not motivated to represent and market American wines in China. According to the distributors, this is due to the margin gap of American wines, which is too small to attract and stimulate them, as they, all are profits-and-margins oriented (see below table).

Table 20: French Wines vs. American Wines in China (according to local distributors)

	French Wines	American Wines
Average unit CIF price of Wine (1.3 to 1.4 USD/Liter)	Equally the same	Equally the same
Brand or Region Awareness of the Chinese	High	Low
Number of importers and of distributors in retail channels	High	Low
Marketing & sales promotion support	High	Low
Market competitiveness	Strong	Weak

Source: KateChanResearch

Still, it is necessary to emphasize here that **the target Chinese customers of imported wines do not really care about the prices, but it is the distributors who do**. Therefore, **margin-oriented incentives and strategies are absolutely needed. It is now or never.**

Suggestions to American wine companies

In terms of the findings, it shows that the majority of these interviewed wine specialists suggested that American wine companies enhance their awareness by investing more in marketing and promotional activities. This suggestion represented a large proportion of their total suggestions.

Interestingly, we found out that a number of local distributors DO know about the quality of American wines, as they all suggested focusing on the high-end market. However, the key factor holding them back is the margin issue. This requires all American wine suppliers' united efforts, not only in marketing and branding, but also in a more profitable partnership portfolio with the local distributors. For more details, please see below.

Table 21: Suggestions to American Wines

No.	Specialty Store (En)	Specialty Store (Cn)	Success Cases of French Wines	Suggestions and Expectations to American wines
1	Ruby Red	紅櫻坊	"Supplied wines are selected best-in-class after a long time screening process."	"Organizing more American wine tasting kind of events."
2	9519	9519 名酒坊	"They are good at building high brand awareness and high reputation."	"Enhancing brand awareness of American wines."
3	9519	9519 名酒坊	"Long history of wine development."	"Reinforcing in marketing and advertising on American wines."
4	Wangdushan	旺度山紅酒庄	"They often provide discounts and good looking packaging."	"Enhancing brand awareness of American wines."
5	Rhône Wine Store	罗纳河紅酒行	"They have consistency in good quality and do lots of marketing."	"Enhancing brand awareness of American wines."
6	CASTEL Family	法国 CASTEL 家族品牌	"Taste is real good."	"Some American wines have good quality, but really need to market and promote its awareness."
7	Shengxue	圣血酒庄	"They provide many incentives to sales people in the channels of Hotels and Restaurants, like a 5% to 15% commission per bottle."	"We expect that American wines can be popular in the non-distance future."
8	Shessiney	雪诗尼葡萄酒庄园	"Good taste."	"Strengthening in sales activities, and targeting for high-end market."
9	Australian Brand	澳洲品牌葡萄酒	"They provide not only commission to sales people but also training and service in the channels of Hotels and Restaurants."	"Quality is good and deserves better promotion and marketing."

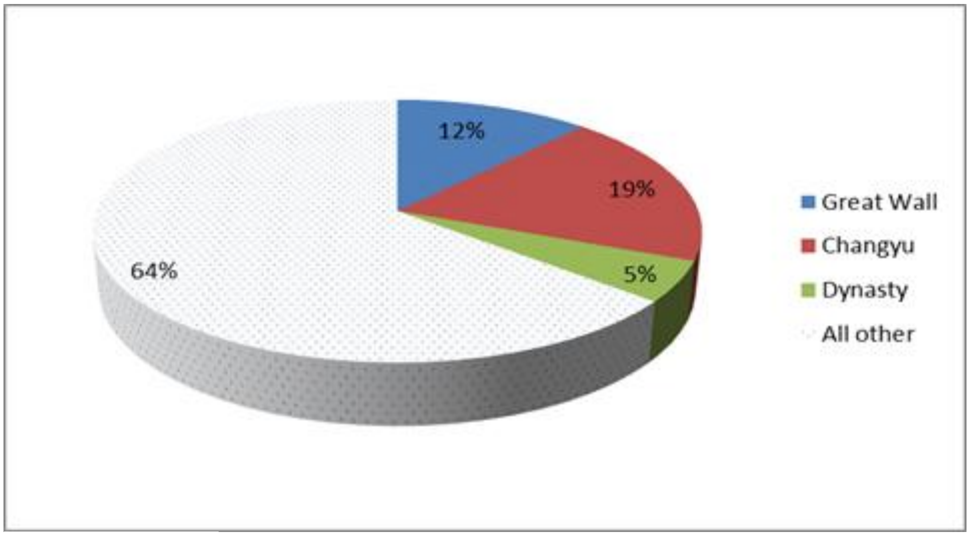
Source: KateChanResearch

Market Competition

Leading Domestic Companies

Out of China's 500 plus wineries in operation, three domestic companies control over 36% of the market. They are Changyu, COFCO's Great Wall, and Dynasty, respectively.

Graphic 21: Market Share of Top Wineries in China



Source: KateChanResearch

Changyu

Yantai Changyu Group Co. Ltd. was established in 1892. Now, through its subsidiary Yantai Changyu Pioneer Wine Co. Ltd., it is the largest company in the market, controlling 19% of grape wine sales in China. Yantai Changyu Group Co. Ltd. and Yantai Changyu Pioneer Wine Co. Ltd. are generally interchangeable under the name Changyu.

Formally a state-owned enterprise owned by Yantai City (Shangdong Province) , the company has since experienced a series of buyouts culminating with the 1997 listing on the Hong Kong Stock Exchange under a B share scheme, focusing on attracting foreign investment. The company made an additional “A share” offering in 2000, leaving the Yantai government with only a 12% stake in the company, and the rest held by Chinese and foreign entities.

Domestic consumption volume for Changyu reached 5 billion RMB in 2010. Current financial statements for Changyu report a five year average profit growth of 26%.

The 100-plus year old winery recently received international notoriety for taking the 10th position amongst the world’s top 10 largest wineries in 2007, and then 7th in 2010. Furthermore, in the recent Forbes.com list “Asia's 200 Best Under A

Billion," Yantai Changyu Group Co. Ltd. was one of only two wineries listed and the only from China. These achievements have helped solidify Changyu's global competitiveness and name recognition.

Successful Business Practices

Reports say that Changyu is one of the largest manufacturers in China, employing above 4,000 people and producing 200,000 tons of grapes annually. The company reaches outside still grape wine into the sparkling, cider, and brandy markets where it holds top billing in all three categories.

Rather than having nationwide distributors like its competitors, Changyu distributes to 29 provinces and municipalities through a vast network of distributors, wholesalers, and retailers that is well over 3,000 members strong. Such a network is based on individual relationships, and profits on the competitive advantage of its smaller, more specialized members, but is quite time consuming to maintain.

With its growing recognition as a world wine player, Changyu wine is becoming more focused on mid-end to high-end products, and is raising production standards accordingly.

Noteworthy joint ventures have been formed with the French based Groupe Castel and Canadian based Aurora Ice Wine Co. Ltd. The gem of the Castel-Changyu joint venture is China's first and largest wine chateau. The project offers two new aspects of the wine industry to China: wine tourism and barrel ordering. The latter is fully accessible through the company's elaborate interactive website. The former can be expected to grow in a big way, as China's tourism industry is mushrooming and offers for "China Wine Tours" are already popping up on websites.
The relationship between Yantai Changyu and Aurora Ice Wine has produced the world's largest ice wine chateau. It single handedly doubled global production, cornering approximately half of the world ice wine market.

COFCO's Great Wall

COFCO Wines & Spirits Co. Ltd. is a fully owned subsidiary of China National Cereals, Oils and Foodstuffs Corporation (COFCO): China's state-owned company for food processing, manufacturing, and trading. COFCO is a diversified conglomerate listed 118^{th} in Fortune Magazine's Global 500 index in 2010 and has five listed subsidiaries, one of which being China Foods Limited, the investment holding company controlling COFCO Wines & Spirits Co. Ltd.

COFCO corked its first wines in the early 80's, which is relatively recent compared to its leading competitor, Changyu. Its established distribution network as a foodstuffs monopoly has made it the market leader, pushing its brand Great Wall to the top ranked wine in nearly every region in China. COFCO's wine value has grown by an AAGR of 15.6 % reaching 3.1 billion RMB in 2010, a decrease of 2.6 % as compared to 2009. The 2010 financial data for COFCO Wines & Spirits Co Ltd. shows a gross profit of 59.9 %.

Successful Business Practices

Great Wall wine production is headed by three wineries that prior to 2006 were partially owned subsidiaries and competed against each other for market share. Realizing the error in this business structure, COFCO Wines & Spirits bought out the remaining share holdings, integrating the three under one common label.

That same year, Great Wall was awarded sole advertising rights for the 2008 Olympic Games. Leveraging the allure of the games, the company entered the high value market by producing Olympic-themed wine and engaged in unprecedented Chinese wine promotions during the games, ultimately projecting the Great Wall name and awareness of Chinese wine worldwide.

The company's website boasts exports to 20 different countries and regions. Though tangible amounts were not provided, industry insiders say COFCO leads Chinese efforts in this regard.

In 2003, the company established a relationship with China Agricultural University, putting in place a viniculture and wine making program for higher learning. The program has acted as COFCO's main talent pool for new employees.

COFCO's own distribution network reaches all parts of China, but its wine distribution has proven imperfect. Loosely structured second-tier distribution has proven defective in placement management and the company plans to centralize control.

Beyond still grape wine, COFCO Wines & Spirits produces labels in the sparkling wine and non-grape wine categories as well. However, its market shares in the respectively small sparkling wine market and highly segmented non-grape wine market are not very significant.

Still ranked number two in still grape wine, COFCO's market share is 12 % in 2010. Primary sales are still in the low-end to low mid-end price bracket. However, COFCO has recently been experimenting with high end lines, which mainly produced by Junding Winery, Sanggan Winery, Huaxia A Production area, with a total production capacity of roughly 100,000 tons per year.

In order to assure sustainability in the future market, COFCO tends to take more control of quality producing areas resources in overseas markets, including **the United States**, Australia and Southeast Asian nations, through mergers and acquisitions with investment funding worth more than 10 billion USD. In February 2011, COFCO has purchased Château de Viaud situated in Bordeaux, France, with 100 million RMB, becoming the first Chinese wine enterprise that achieves overseas acquisition for the purpose of production. COFCO's (Great Wall) Wine's acquisition and integration of overseas premium producing area resources are of more significance to embrace advantageous resources and enhance the brand's influence in the world.

Dynasty

DYNASTY

Dynasty Fine Wines Group Limited

Ownership and conception history of Dynasty is far less complex than its competitors. Established in 1980 as a joint venture between Tianjin City Grape Garden and Remy Martin, the company then went public on the Hong Kong Exchange in 2005, with Remy Martin remaining as its top investor.

In past years, Dynasty had traditionally been number two in the market. However, in 2010 it experienced a slight shortfall in production growth causing it to slip to the number three spot. It currently holds 5 % of the market. Dynasty had s 2010 production volume of approximately 63 million bottles. Its 2010 sales revenue reached 1.3 billion RMB. And it has a three year average gross profit margin of 50 %. In the fourth quarter of 2010, the annual production capacity reached 70,000 tons (equivalent to approximately 93 million bottles).

Successful Business Practices

To offset recent production shortfalls, Dynasty entered into a relationship with an Australian wine company that relies on Australia's complementary growing season.

Over the years, the company has actively purchased imported oak barrels to improve production quality. In order to further advance quality production, Dynasty planned to purchase quality wineries in Australia, New Zealand, Chile and France with investment funding worth more than 1 billion RMB in the next few years.

Focus on quality production has been a part of Dynasty's business plan since its inception, with strong guidance from Remy Martin. Dynasty focuses on premium products and has traditionally been the staple drink served at state banquets and Chinese embassies world-wide.

While its focus is on quality, the company has products placed across the price spectrum. To ship these products, Dynasty enlists national distributors to reach all provinces, autonomous regions, municipalities, and special administrative regions governed by China. Despite its recent drop in standings, Dynasty remains a name most associated with quality Chinese wine.

In order to accelerate business growth and fortify market positions, Dynasty's strategic focus is to leverage their brand equity and to continue to strengthen and expand sales channels and networks by planning to establish approximately 100 franchised retails shops in certain selected markets in China, evaluating appropriate acquisition opportunities and distributorships for foreign brand wines. Leveraging the Dynasty's strong financial position, enlarged production capacity and strong brand equity, Dynasty is well positioned to sustain long-term growth and deliver.

Leading Importing Countries

Three countries, France, Australia and Chile, account for approximately 74 % of the market for imported wines Differing greatly in terms of entry time, products, and strategy, France, Australia, and Chile dominate the market and have strong promotional activities. Commitment, creativity, sound marketing strategies, and structured support programs fuel the top three's continued growth.

France

Through a Sino-French joint venture, France entered the market in 1980 with the creation of Dynasty. Direct wine imports from France soon followed and flourished virtually unchallenged until 1997 when the first notable amounts of other foreign wine began to enter the market. Despite the presence of competition, French wine continues to dominate the market, holding 45 % of the imported wine share and growing 86 % in value in 2010.

Although French product disproportionately enters through East China, North and South China are still represented in the top three.

Even with the clear lead French companies remain active, engaging in new joint ventures – notably Castel-Changyu – trade missions, and actively promoting its products through trade organizations. France's primary trade organization is the private, for-profit company Sopexa, which has three offices in China Mainland as well as Hong Kong and Taiwan.

Although Sopexa does not receive funding from the French government for non-government agency events, the company has a standing account with the French Forestry and Agriculture Office, working on various promotions. It has a full official marketing program in China. Sopexa orchestrates an array of promotional activities including wine tastings, promotional events, and trade shows.

Australia

Having only become a major player in China in 2002, Australia's position has fluctuated over the years. The country currently sits at number two in market share, with 19 % of the import market, up 53 % in value over 2010. Recently new to the market, Australia made its presence known through creative promotions and branding. Already having success with "critter brands" in the United States, the marketing scheme has been a success in China as well. Like France, most product moves through the East China port of Shanghai, though all regions are represented in the top ten.

Austrade is a government agency that supports Australian exports. The organization has 15 offices in China and is federally funded.

After its success in 2008, "A Taste of Australia" was set to encore in 2009. The trade event was held in the Southern cities of Chongqing, Kunming, Xiamen, Guangzhou, and Sanya. The series is meant to correlate with the largest wine tasting ever hosted by the Australian Consulate General in Shanghai, which took place during the drafting of this report.

Perhaps Austrade's most important program is the one designed to help Australian exporters themselves. In addition to market analysis and logistic support, the program offers a step-by-step guide to entering the China market which includes checkpoints to ensure a company is ready to proceed. Furthermore, the organization offers financial assistance up to 50 % of expenditures over a set threshold.

Additional activities include sponsoring trade missions for Chinese traders to travel to Australia and current trade talks of a free trade agreement.

Outside Austrade sponsored activities, books specifically geared to promote Australian wines to Chinese consumers have recently been hitting the shelves. The most notable was written by Jeremy Oliver. Such books provide detailed tasting notes and suggestions on how to enjoy Australia's leading labels.

Chile

From being a relatively unknown country in China, Chile now faces a situation unique to top wine market players. Through frequent and elaborate promotional activities, Chile has captured 10 % of the market, securing its position as number three. The value of its share is up 40 % in 2010.

Due to Chile's bulk wine focus, it mainly ships to North China where the majority of domestic wineries that use Chilean wine to facilitate blending are located. In order to minimize shipment time, Chile makes use of a wide range of ports strategically located near product end users.

In 2006, Chile entered a free trade agreement with China. For wine, tariff rates drop by 1.4 % per year and will reach zero in 2015. The import tax is 8.4 % as of 2009 (for other countries, the tax is 14 %).

In addition to wine, Chile promotional activities have needed to promote the country itself. Through the government agency Pro Chile, efforts to spread the country image throughout China have proven successful. Touting the slogan "Chile: All Ways Surprising," the agency has engaged in self-described "waves of promotion."

Recent sponsorship of a Chinese coalition to Chile culminated in the book Wines From Paradise: Chilean Wines, written by esteemed Chinese wine critic, Susie Wu. Other government sponsored trips to Chile included a wedding travel package awarded to a Chinese couple. The trip followed the "All Things Surprising" theme and was featured on two television shows.

Pro Chile's "Sister Cities" program is intended to match specific Chilean and Chinese cities that match well for imports while putting a face to the country. The "Chile: A close partner" program is set to focus on central and southwest China, where the agency believes market opportunity exists. These tailored programs have been widely accepted by Chinese businesses and consumers.

Note:
Research now completed. For detailed executive summary, please see chapter 2.

Follow up

It is our wish that our efforts and activities make a substantial contribution to create real value and effect for our customers and cooperation partners.

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(End of report)

Enclosures

Standards, Laws, and Regulations

National (Chemical) Standards

Physical and Chemical Indicators	Minimum	Maximum
Alcohol content (20ºC)/(%)	7	
Sugar-free extract (g/L)		
-White wines	16	
-Rose wines	17	
-Red wines	18	
Volatile Acid (measured by acetic)/		1

Citric acid / (g/L)		
-Dry, semi-dry and semi-sweet wines		1
-Sweet wines		2
Total sulfur dioxide / (mg/L)		
-Dry wines		200
-Other types of wines		250
Iron / (mg/L)		8
Copper / (mg/L)		1
Methanol / (mg/L)		
-White and rose wines		150
-Red wines		300
Lead (pb) / (mg/L)		0.2
Benzoic acid or sodium for mate		50
Sorbic acid or potassium sorbate		200
	Container	Range
Carbon dioxide		
-Low sparkling wines	<	7.25-43.5
	=	7.25-49.31
-Sparkling wines	<	=43.51 (psi)
	-	=49.31 (psi)

Source: the AQSIQ [38] and KateChanResearch

Labeling Regulations

Mandatory items	Minimum height	Position
A. Name/Brand	1.8mm	Undefined
B. Product type	1.8mm	Adjacent to Name/Brand
C. Ingredients	1.8mm	Undefined
D. Alcohol content (%)	1.8mm	Undefined
E. Must content (%)	1.8mm	Undefined
F. Packer/distributor/importer (Name and address)	1.8mm	Undefined
G. Bottling date (yyyy/mm/dd)	1.8mm	Undefined, but position must be made apparent
H. Quality guarantee or storage period (yyyy/mm/dd)	1.8mm	Undefined
I. Net volume (ml)	See table	Same panel as Name/Brand
J. Country of origin	1.8mm	Undefined
Optional items	**Minimum height**	**Position**
K. Vintage	1.8mm	Undefined
L. Varietal	1.8mm	Undefined
M. Region of Production	1.8mm	Undefined

Source: the AQSIQ and KateChanResearch

Notes:

1) Product type is defined by sugar content;
2) Grape wines are exempt from this requirement;
3) Wines with alcohol content greater than 10% are exempt from this requirement.

A. Name/Brand: A brand name or trademark may be placed in a prominent position on the label, but should not be misleading as to the true nature of the alcohol.

B. Product Type: A product type defining the true nature of the alcohol is to be placed adjacent to the brand name. If the brand name or trademark is misleading, the product type must be the same size font. Product types are listed and defined below.

B.1 Still Wines: Still wines contain carbon dioxide pressure below 7.25 pounds per square inch (psi) at the temperature of 20°C. In addition to White, Rosé and Red; GB 15037-2005 defines subtypes based on sugar content. Subtype definitions are in Table a.

Table a

Still wine sub-type	Total sugar [39] \ (calculated by glucose)/(g/L)
Dry wines	= 4.0 Or up to 9 g/L if the total acid content falls within 2 g/L of the sugar content

Semi-dry wines	4.1 – 12.0 Or up to 18 g/L if total acid content falls within 2 g/L of the sugar content
Semi-sweet wines	12.1-45.0
Sweet wines	= 45.1

Source: the AQSIQ and KateChanResearch

B.2 Sparkling Wines: Sparkling wines have naturally produced carbon dioxide pressure carbon dioxide pressure equal to or higher than 43.51 psi in bottles smaller than 250 mL, at the temperature of 20°C. Further subtype definitions defined in Table b.

Table b

Sparkling wine sub-type	Total sugar (calculated by glucose)/(g/L)
-Brut sparkling wines [40]	= 12.0
-Extra – dry sparkling wines [41]	12.1-17.0
-Dry sparkling wines [42]	17.1-32.0
-Semi-dry sparkling wines	32.1-50.0
-Sweet sparkling wines	= 50.1

Source: the AQSIQ and KateChanResearch

B.3 Semi-Sparkling Wines: Semi-sparkling wines have naturally produced carbon dioxide pressure between 7.25 psi and 43.5 psi in bottles smaller than 250 mL, at the temperature of 20°C.

B.4 Carbonated Wines: Carbonated wines have carbon dioxide pressure that is partially or completely added manually.

B.5 Liqueur (Fortified) Wines: Fortified wines have a liquor content of 15 – 22 % with addition of brandy wine, edible alcohol or grape alcohol, a grape juice, condensed grape juice, caramel grape juice or granulated white sugar.

B.6 Ice Wines: Ice wines are made from grapes picked when the temperature is below -7°C. There is no sugar added in the production process.

B.7 Noble Rot Wines: Noble Rot wines are made from grapes cured with botrytis cinerea.

B.8 Low Alcohol Wines: Defined as wines whose alcohol content is 1 – 7 % and which are produced with special techniques after partial and complete fermentation of fresh grapes and grape juice.

B.9 Non-alcohol Wines: Defined as wines whose alcohol content is 0.5 – 1 % and which are produced with special techniques after partial and complete fermentation of fresh grapes and grape juice.

C. Ingredients: Wines made up of a single raw material are exempt from this requirement. However, fortified wines must list additives. For further additive listing requirements refer to GB 2760. Any preservatives must be specifically listed rather than simply listed or grouped as under the rubric of "preservatives."

D. Alcohol Content: Alcohol content should be labeled as "Alcohol Strength." Must be listed as a %age of volume.

E. Must Content: Grape wines are exempt from this requirement. It is solely for beer and non-grape wine.

F. Names and Addresses: The names and addresses of the Chinese agent, importer or distributor registered in China, must be declared. Any company that bears independent statutory responsibilities should have their address listed as well, but it need not be translated to Chinese.

F. Bottling Date: A major requirement difference between Chinese regulations and U.S. common practice is the bottling date. Every unit of wine must have a bottling/packaging date. It is to be listed in the order of year-month-day. Four digits are generally required for wine. The following examples for July 4, 2009 are acceptable methods:

- 2009 07 04
- 20090704
- 2009-07-04

Labels are not allowed to be in the form of removable stickers or blocked in any way by a sticker. Therefore, the law suggests that the bottling date must either be etched onto the bottle or on the official label. If the date is placed somewhere other than the official-label its location must be clearly described on the label.

H. Quality Guarantee and Storage Period: Wines with alcohol content of 10 % or greater are exempt from this requirement. If containing lower than 10 % alcohol the requirement must be filled by using one of the following methods:

a. For the date of minimum durability:

"Best before…"
"The date of minimum durability up to…"
"The date of minimum durability of…"

a. For the use –by date:

"Use by…"
"The use-by date up to…"
"The use-by date of…"

Any further storing instructions should also be included in this section, especially if the guarantee date is dependent on proper storage.

I. Net Volume: Net volume must be indicated on the same panel as name and product type. The word size and measurement unit varies depending on volume (Table c).

Table c

Net content (Q)	Minimum height of characters (mm)
5ml<Q≤50ml	2
50ml<Q≤200ml	3
200ml<Q≤1L	4
Q>1L	6
Scope of net content (Q)	**Measurement**
Q<1,000mL	mL(ml)
Q≥1,000mL	L(l)

Source: the AQSIQ and KateChanResearch

J. Country of Origin: The country of origin is required and must be verified. Verification can be obtained by the *State Commerce Department.*

K. Vintage: No less than 80 % of content should be grapes harvested during the indicated vintage year.

L. Varietal: The claimed grape varietal should make up 75 % of the wine content.

M. Region of Production: Grapes from the claimed region should comprise no less than 80 % of the total volume.

Additional requirements

All information labeled in English must also be equally represented in Chinese and in the same size font. That size being the minimum 1.8 mm. All labels must be permanent in the sense that they cannot be separated from the bottle.

Transportation Requirements

Bottled wine must be placed upside-down or horizontally. Further transportation requirements are rather lax, so it is advised to keep with industry standards in order to maintain product quality.

By law, the port requires a 24-hour notice prior to shipment arrival. Importers usually communicate with the port days or weeks prior making the law negligible. Communication with one's importers prevents any problems in this area.

Customs Inspection

According to regulations, less than 1,500 mL will be sampled if bottles contain less than 500 ml. Samples will be selected randomly and proportionately in accordance with the testing rubric below.

Testing Rubric

Scope (boxes)	Number of samples (boxes)	Number of unit samples (in bottles)
<50	3	3
51-1,200	5	2

1,201-3,500	8	1
Over 3,501	13	1

Source: the AQSIQ and KateChanResearch

Test samples are immediately flagged and taken. Two bottles are sealed for inspection two months later. The remaining samples are taken to sensory, physical, and chemical tests.

It is important to reiterate that this process may not occur precisely as described

Tariffs

Three compounded taxes are levied on imported wine to China:

Total Import Duty

- Import Tax Rate (ITR)
  - Bulk wine **20 %**
  - Bottled wine **14 %**
- Consumption Tax Rate (CTR) **10 %**
- VAT Rate (VATR) **17 %**

Taxes on bottled and bulk wine differ only in the Import Tax Rate. In figuring out the total tax rate on wine, following formula may be of use:

$$\text{Total Import Duty} = \frac{ITR + CTR + VATR + (ITR \times VATR)}{(1 - CTR)}$$

Using bottled wine as an example, the compound rate is calculated as follows:

$$\text{Total Import Duty} = \frac{0.14 + 0.1 + 0.17 + (0.14 \times 0.17)}{(1 - 0.1)}$$

Simplifying,

$$\text{Total Import Duty} = \frac{0.41 + 0.0238}{0.9} = 0.482 = \mathbf{48.2\,\%}$$

As shown, the total import duty on bottled wine is **48.2 %**. Using the same formula, you find the total import duty on bulk wine to be **56 %.**

Source: Customs Import and Export Tariff of the People's Republic of China

Gray Channel

The gray channel is the illegal supply chain for goods generally sourced out of Hong Kong into Mainland China. There are two modes in which goods enter the Mainland illegally. The first method is through under-valuing invoices and entering by means of port connections. Such relations vary from friends or family to implicit under-the-table business arrangements. The second method is the physical act of sneaking the product over the border and foregoing customs and duty payment altogether.

Gray channel products traditionally only source to South China, though product has been known to reach all parts of the country. Reports from the South have noted that Hong Kong's 2008 tax cut on wine imports has amped up gray channel activity, which had been waning prior.

Along with legal implications, the use of such channels seriously hinders the prospects of longevity in the market. Involvement in would-be scandals could also be detrimental to brand image. Gray channel trading is a highly unreliable way to import goods into China Mainland.

"Group-Buying" Channel

It is necessary to mention the "gifting" tradition in China, prior to the "group-buying" channel. Similar to the Holiday Season in the western countries, companies in China are accustomed to send gifts to their clients and friends during the Chinese New Year (Jan/Feb) and the Mid-Autumn Festival (Sep/Oct). This friendly gesture has become a grand culture for decades. With the rapid development of the wine industry in China, gifting with imported wines has become a popular, luxurious and fashionable gesture embodied with symbol of prosperity, which is very well received by the Chinese people, especially the companies in the most dynamic cities.

The channel of "group-buying" is created and demanded in the most recent three years. The company running this "group-buying" portfolio will need to have strong personal relationships network, business development skills, and customer relations as a priority. As it often happens to the company, they need to send out free wines as gifts or samples for relationship building or business development. Some companies actually send out 60% (i.e. 500,000 bottles) free wines to B2B corporate clients and to reach an annual sales volume of 250,000 bottles. The gross profit is mainly associated with the personal relationships, the ultimate sales, the prices, and mostly the payment term. Without a secured payment term, the costs of these free wines would be a potential risk to the company. (See below estimation).

Estimation:
Profit of wines = Sales Revenue – Costs
= 250,000 * unit retail price – 750,000 * (import CIF price + tariffs & taxes)
= 250,000 * unit price – 23.3 million RMB
If the unit price ranges from RMB 100 to RMB 200, the gross profit would be roughly 10% to 50%.

Source: KateChanResearch

Note: the "import CIF price + tariffs & taxes" = RMB 31/bottle, cited from the above chapter.

Therefore, minimizing the potential risk and maximizing profits are the core issues of the company. If it is well balanced, the sales performance could be very promising in the Chinese wine market.

Criteria for Selection of Distributors/Wholesalers

Criteria for Selection of Distributors/Wholesalers

Distributor/Wholesaler Related:

- Does the distributor/wholesaler have the necessary facilities and trade connections to open and maintain accounts?
- Can the distributor/wholesaler provide the services to ensure satisfied customers and the distribution and service level expected to achieve our sales and distribution objectives.
- Sales power (sales reps., vehicles (air-conditioned/refrigerated), number of outlets covered, visit frequency, etc.)
- Storage facilities – Refrigerated/Temperature and Humidity Control
- Delivery ability
- Financial strength
- Attitude

The distributor/wholesaler must be willing to invest in vehicles, sales force and proper storage facilities and they must follow the established system / rules rigidly.

Basic Requirements for Wholesalers

Information Systems

The following basic sales information has to be available in order to support the operation of the business in general and the sales figures related to off-take per outlet are of specific interest in relation to managing the distributors/**wholesalers:**

- Daily Sales per Sales Representative per Product Category;
- Month To Date (MTD) Sales per Sales Representative per Product Category Vs Target;
- Daily Sales per Key Customer / Customer Group per Product Category;
- MTD Sales per Key Customer / Customer Group per Product Category Vs Target;
- Year To Date (YTD) Sales per Key Customer / Customer Group per Product Category;
- Monthly, YTD and Moving Annual Total (MAT) sales per stock keeping unit;

- Number of visit and Number of orders per Day per Sales Representative;
- Monthly and Annual Sales data per Customer / Outlet.

Motivation of distributors/wholesalers should be built:

- Training, guidance and direction
- Market servicing
- Performance against targets
- Opportunities, problem solving
- Sales force coverage and quality
- Volume rebate
- New outlet incentive
- New product incentive (achievement of product-mix objectives)
- Additional distribution point incentive
- Year-end award

Key Result Areas Used for Evaluating Distributors/Wholesalers are

- Distribution penetration / Coverage
- Volume achievement
- Accuracy and timeliness in reporting / Communication
- Stock level in warehouse
- Account / Channel / Territories management
- Delivery performance
- Handling of market returns
- Investments in modernizing facilities / Equipment / Information systems

Source: CH9808 Report of ATO

Exporting Product to China & Sending Samples

Exporting Product to China & Sending Samples

Step One: Market Research

Having read this report and all the reports cited therein, an exporter should be informed enough to make a decision whether or not to proceed; however, too much research is never a negative factor. Upon deciding to do business or simply measure the market, register the company trademark and wine label.

Step Two: Find Interested Distributors

In addition to privately researched distributor and importer company contacts, exporters should contact the local Agricultural Trade Office (ATO) for further contact information. The ATO will also be able to identify any red-flagged companies that U.S. exporters have had problems with in the past.

After the initial communication, provide samples, pricing information, and brochures to companies that express interest. During this face shipping samples via post is advisable. Samples for trade shows and the like will be addressed after exporting information.

Upon receiving positive feedback, book meetings with interested companies.

Step Three: In-Market Visit

Before arriving in China, prepare a marketing strategy for the exporting company and identify goals. While meeting with importers, match the company against the suggested criteria in **Appendix 7.5**.

Negotiating the relationship agreement between the two parties is quintessential to a healthy business relationship and successful marketing strategy. The relationship should address the following:

- A single market strategy and branding image to be followed in China
- Each party's involvement in promotional and new market seeking activities

- Payment distributions for in-market charges
- Sales goals
- Payment methods

As a new business relation, signing a sole distributor agreement at this time is ill-advised. ATO Shanghai suggests working with multiple distributors until a proper market niche presents itself.

Step Four: Discuss Shipment Logistics and Payment method

The local imported usually has a suggested mean of transportation. Sea freight is typical of wine and should be shipped in accordance to the transportation guidelines listed in **Appendix 7.1**.

It is important to confirm the time schedule and certificates required. Required documentation includes the following:

- Invoice and Packing list: Provided by shipping service.
- Photo-sanitary certificate: Provided by Animal and Plant Health Inspection Service (APHIS) (only needed for wooden crates)
- Certificate of Origin: Provided by Chamber of Commerce
- Bottling certificate: Provided by winery

Payment type should be addressed in negotiations. For international business deals payment is generally made through a certificate of credit issued by an international bank. It is important to be clear with counterparts the party responsible for different charges, i.e. shipping costs and insurance fees.

Step Five: Ship product

Certificates and customs documentation must match in definitions and container numbers. Originals should be shipped with wine and copies sent to the importer. A copy should also be kept for records.

Upon receiving arrival confirmation follow up on payment.

Step Six: Communicate Throughout Marketing Strategy Implementation

At this point many exporters believe their involvement to be over; where in fact communication at this point is most essential. Ensuring the marketing strategy is being followed as planned and gauging sales patterns is needed for proper evaluation. Continual communication is the only way to be certain the importer is following through as planned.

Step Seven: Reevaluate the Situation

After a given period time reevaluate the importer against the initial agreements and redefine the company's marketing strategy. Determine whether the market strategy fits the product. Also, sharing importer relationship experiences helps ATO accurately inform fellow U.S. exporters.

Samples

Step One: Identify a Logistics Company

Through personal research identify a logistics company and shipping method. If time permits it is suggested to use sea shipment oppose to air.

Payment type should be addressed in negotiations. For international business deals payment is generally made through a certificate of credit issued by an international bank. It is important to be clear with counterparts the party responsible for different charges, i.e. shipping costs and insurance fees.

Step Two: Ship product

Certificates and customs documentation must match in definitions and container numbers. Originals should be shipped with wine and copies sent to the logistics company. A copy should also be kept for records.

Upon receiving arrival confirmation follow up on payment.

Important Note:

Wine samples are subject to full import duties by regulation. However, it has recently come to the attention of ATO Shanghai that a sample shipment of 12 bottles total, will be allowed to enter China duty free. There is no Chinese regulation or law that supports this practice, which very well may be based a particular company's relationship with the port. Distributors and import agents will provide further information.

Source: CH9808 Report of ATO

Contact information

The Entry-Exit Inspection and Quarantine Bureau and the Ministry of Health

No.	Authority	Contact information
1	Beijing Entry-Exit Inspection and Quarantine Bureau	Telephone: (86 10) 5861 9900 Address: No. 6 Tianshuiyuan Street, Chaoyang District, Beijing Web site: www.bjciq.gov.cn
2	Shanghai Entry-Exit Inspection and Quarantine Bureau	Telephone: (86 21) 3862 0168 Address: No. 1208 Minsheng Road, Pudong New District, Shanghai Web site: http://www.shciq.gov.cn/affiliation.jsp
3	Guangzhou Entry-Exit Inspection and Quarantine Bureau	Telephone: (86 20) 3829 0073 Address: No. 66 Huacheng Dadao, Tianhe District, Guangzhou Web site: www.gdciq.gov.cn
4	Ministry of Health	Telephone: (86 10) 6879 2114 Address: No. 1 Xizhimen South Road, Xicheng District, Beijing Web site: http://www.moh.gov.cn

China Customs

No.	Authority	Contact information
1	General Administration of Customs	Telephone: (86 10) 6519 4422 Address: No. 124 Chaoyangmennei Dajie, Dongcheng District, Beijing Web site: www.customs.gov.cn
2	Shanghai Custom	Telephone: (86 21) 6889 0000 Address: No. 13 Zhongshan Dongyi Road, Shanghai Web site: http://shanghai.customs.gov.cn/publish/portal27/

3	Guangzhou Custom	Telephone: (86 20) 8110 2000 Address: No. 83 Huacheng Dadao, Zhujiang Xincheng, Guangzhou Web site: http://guangzhou.custom.gov.cn/publish/portal31/

Selected Specialty Chain Stores in East China & Photos

No.	Company name (En)	Company name (Cn)	Contact information	Photos
1	Ruby Red	红樽坊	(86 21) 6234 2249 (86) 138 1608 4535 Location: Changning District, Shanghai	
2	9519	9519名酒坊	(86 21) 6266 6779 (86) 133 8623 0925 Location: Changde Road, Shanghai	
3	9519	9519名酒坊	(86 21) 6257 8767 (86) 139 1608 1340 Location: Lanxi Road, Shanghai	
4	Wangdushan	旺度山红酒庄	(86 574) 8726 4977 Location: Ningbo, Zhejiang province	
5	Rhône Wine Store	罗纳河红酒行	(86 574) 8735 5898 Location: Ningbo, Zhejiang province	

6	CASTEL Family	法国CASTEL家族品牌	(86 574) 8778 0574 Location: Ningbo, Zhejiang province	
7	Shengxue	圣血酒庄	(86 571) 8704 2005 Location: Hangzhou, Zhejiang province	
8	Shessiney	雪诗尼葡萄酒庄园	(86 571) 8898 9799, 8886 2285 (86) 187 5820 5821 Location: Hangzhou, Zhejiang province	
9	Australian Brand	澳洲品牌葡萄酒	(86 571) 8288 0157, 8227 0999 Location: Hangzhou, Zhejiang province	

About This Report

Interviewed wine importers are listed in the table below. (Note: These importers consist of various sized companies.)

Interviewed Wine Importer & Exclusive Distributors

No.	Abbreviation	Company Name	Focus on American Wines Sales	Main Interviewee	Contact Details
1	**ASC**	ASC Fine Wines Co., Ltd	Approx. 10%	Ms. Wei	(86) 131 6717 0788
2	**Summergate**	Summergate International Trading (Shanghai) Co., Ltd	Approx. 10%	Mr. Zhou	(86) 186 2161 0303
3	**Aussino**	Aussino World Wines Pty Ltd	Approx. 10%	Mr. Li	(86) 186 6501 5990
4	**Gascogne**	Qingdao Gascogne Wine Co., Ltd	0%	Mr. Li	(86) 133 6123 1996
5	**Hanhe**	Shanghai Hanhe Trade Co., Ltd	Approx. 10%	Mr. Liu	(86) 137 9521 5291
6	**Manpin/Aoron**	Shanghai Manpin Wine Co., Ltd	Approx. 10%	Mr. Zhang	(86) 138 1872 8646
7	**Winebond**	Winebond Inc.	20%-30%	Ms. Sun	(86) 136 1169 4999
8	**Cal-China**	California China Wine Trade LLC.	100%	Mr. Beros	(86) 138 1689

					0072
9	**Godolphin**	Godolphin Wine Service Co., Ltd	n/a	Ms. Yin	(86) 139 1739 0301
10	**Wine Hub**	Wine Hub Co., Ltd	100%	Mr. Cheng	(86) 136 3643 3218

Note: Godolphin is a wine educational organization.

Primary information sources also included both site visits and field surveys with wine specialty chain stores in East China (including Shanghai, Hangzhou and Ningbo). Investigated specialty chain stores included (1) “Ruby Red”, (2) “9519”, (3) “Wangdushan”, (4) “Rhône Wine Store”, (5) “CASTEL Family”, (6) “Shengxue”, (7) “Shessiney”, and (8) “Australian Brand”. Nine quantitative field survey questionnaires were conducted. The answers the sales managers at these 9 investigated stores gave form the basis of the Chinese Consumer Survey. The questions mainly focused on purchasing behavior and habits, purchasing preferences of Chinese wine consumers, as well as evaluations of and suggestions for American wines.

Investigated Wine Specialty Chain Stores

No.	Specialty store (En)	Location	Contact information
1	Ruby Red	Changning District, Shanghai	(86 21) 6234 2249, (86) 138 1608 4535
2	9519	Changde Road, Shanghai	(86 21) 6266 6779, (86) 133 8623 0925
3	9519	Lanxi Road, Shanghai	(86 21) 6257 8767, (86) 139 1608 1340
4	Wangdushan	Ningbo, Zhejiang province	(86 574) 8726 4977
5	Rhône Wine Store	Ningbo, Zhejiang province	(86 574) 8735 5898
6	CASTEL Family	Ningbo, Zhejiang province	(86 574) 8778 0574

The research also draws on secondary information from published information and statistics of National Bureau of Statistics of China (NBSC) and Kate Chan Research.

The purpose of this report is to facilitate the development of sales and marketing strategies (2011-2015) in China for American wines. The Market Survey concentrates on the following four (4) objectives.

Objectives
To understand:
1. The China Wine Market;
2. Distribution and successful route to the Market;
3. Chinese consumer purchasing behavior and habits; and
4. Market competition;

The Market Survey of **wine production and sales** focuses on the following:

Step 1: Industry overview

- General overview
    1. Demographic of wine consumers
    2. Annual disposable income of wine consumers
    3. Annual expenditure on wine
    4. Expenditure and market revenue on wine
    5. High-income class, etc.
- Market tendency
- Import market
- Regulatory market entry barriers
    1. Regulations and registration
    2. Custom tariff

Step 2: Distributor and consumer research

- Distribution channels in general
- Distribution structure
- Main distribution channels
- Specialty store of wine
    1. Photos;
    2. Specific interviews based on a questionnaire;
    3. Contact information and other complementary information
- Consumer group segmentation (through distributor's insight)
- Consumer purchasing behaviour and habits (through distributor's insight)

1. Purchasing trigger
2. Purchasing frequency
3. Pricing
4. Purchasing channels
5. Brand loyalty
6. Parameters to influence purchase
7. Mostly influenced factor in purchasing decision
8. Favourable marketing and promotional sales approach.

Step 3: Market competition

- Leading domestic companies
- Leading importing countries

Step 4: Executive summary

- Summary

1. The China Wine Market
    a. Current Market situation
    b. Domestic production
2. Import Market
3. Distribution and distribution channels
4. Consumer analysis
5. Competition
    a. Leading domestic companies
    b. Leading importing countries
6. Evaluation results of entry methods
7. Marketing strategies

- Marketing
1. SWOT analysis
2. Keys to success
- Recommendations

Step 5: Enclosures

- Contact information and further information
- Criteria for Selecting Distributors
- Standards, Laws, and Regulations
- Tariffs
- Exporting Product to China & Sending Samples

(End of appendices)

[1] For detailed introduction, please view on: http://en.wikipedia.org/wiki/Sina_Weibo
[2] For detailed introduction, please view on: http://en.wikipedia.org/wiki/Sina_Weibo
[3] It includes sparkling wine, still grape wine, vermouth and spirits.
[4] Approximately 303 million = 328 million – 25 million.
[5] Imported wine is regarded as luxury goods in the Chinese market according to the Chinese consumers.
[6] It includes sparkling wine, wine, vermouth, and spirits.
[7] Imported wine in containers holding 2L or less
[8] Imported wine in containers holding above 2L
[9] Full content in English version is included in the link:
http://english.aqsiq.gov.cn/LawsandRegulations/allenglish/200708/t20070823_36982.htm
[10] Full content in English version is included in the link:
http://english.aqsiq.gov.cn/LawsandRegulations/allenglish/200709/t20070905_38073.htm
[11] Full content in English version is included in the link:
http://english.aqsiq.gov.cn/LawsandRegulations/allenglish/200709/t20070906_38133.htm
[12] Full content in English version is included in the link:
http://english.aqsiq.gov.cn/LawsandRegulations/allenglish/200711/t20071116_54383.htm
[13] Full content in English version is included in the link: http://en.utrans.com.cn/Upload/download/1-GB%2010344-2005%20about%20making%20Chinese%20labels.pdf
[14] Full content in English version is included in the link: http://www.jlhyyq.com/upload/339091/2010111007593599.pdf
[15] GB9685 2008: Hygienic Standards for Uses of Additives in food containers and packaging materials
http://www.jlhyyq.com/upload/339091/2010111007593599.pdf
[16] Full content in English version is included in the link: http://en.utrans.com.cn/Upload/download/1-GB%2010344-2005%20about%20making%20Chinese%20labels.pdf
[17] Regulations of People's Republic of China on Import and Export Tariff
Click here http://en.148365.com/802.html to view full content in English
[18] Custom Laws of People's Republic of China
Click here http://www.china.org.cn/english/government/207292.htm to view full content in English
[19] The MFN tariff rates shall apply to goods imported from and originating in the members of the World Trade Organization providing that the MFN treatment is reciprocal between the People's Republic of China and these members; or those countries or regions with which the People's Republic China has concluded bilateral agreements for reciprocal tariff preference; or the custom territory of the People's Republic of China.
[20] For English content please view on: http://www.lawinfochina.com/display.aspx?lib=law&id=7344
[21] For English content please view on:http://www.lehmanlaw.com/resource-centre/laws-and-regulations/consumer-protection/law-of-the-peoples-republic-of-china-on-protection-of-the-rights-and-interests-of-the-consumers-1994.html

[22] For English content please view on: http://www.lawinfochina.com/display.aspx?lib=law&id=430
[23] For English content please view on: http://www.12365.sd.cn/eweb/laws1-4/law1_2.html
[24] For English content please view on: http://www.lawinfochina.com/display.aspx?lib=law&id=8079
[25] For English content please view on: http://www.lawinfochina.com/display.aspx?lib=law&id=8160
[26] For English content please view on: http://aqsiqccc.com/en/news/news-6.html
[27] For English content please view on:

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Safety%20Standard%20on%20Fermented%20Alcoholic%20Beverages%20(draft)_Beijing_China%20-%20Peoples%20Republic%20of_5-19-2011.pdf

[28] For English content please view on: http://www.khlaw.com/showpublication.aspx?Show=4633&Language=3189

[29] For English content please view on: http://www.fas.usda.gov/gainfiles/200608/146208660.pdf

[30] For English content please view on: http://gain.fas.usda.gov/Recent%20GAIN%20Publications/General%20Rules%20for%20the%20Labeling%20of%20Prepackaged%20Foods_Beijing_China%20-%20Peoples%20Republic%20of_5-25-2011.pdf

[31] For English content please view on: http://en.utrans.com.cn/Upload/download/1-GB%2010344-2005%20about%20making%20Chinese%20labels.pdf

[32] For full content please view on: http://www.google.com.hk/url?sa=t&rct=j&q=%25EF%2581%25AC%2509GB%2B12696-1990%2BHygienic%2Bspecifications%2Bof%2Bfactory%2Bfor%2Bwine%2B&source=web&cd=2&ved=0CCcQFjAB&url=http%3A%2F%2Fwww.china12315.com.cn%2Fdownload%2Ffiledown.asp%3Fkind%3Dstan%26id%3D4894&ei=objETqCCNYmSiAes3OHsAg&usg=AFQjCNFNXTbL0qmxuNINaSXvmoqMPZQHZA

[33] For full content please view on: http://doc.csres.com/showdoc-30187.html

[34] For detailed definition please view http://en.wikipedia.org/wiki/Pareto_principle

[35] Offline store stands for physical store.

[36] For introduction of the Chinese Mid-Autumn Day (or namely Moon Festival) http://en.wikipedia.org/wiki/Mid-Autumn_Festival

[37] For introduction of the Chinese New Year, please view on: http://en.wikipedia.org/wiki/Chinese_New_Year

[38] AQSIQ: The General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China

[39] The requirements on the sugar content requirements for low sparkling wines should be the same as those of still wines.

[40] A difference of 3.0 is allowed

[41] A difference of 3.0 is allowed

[42] A difference of 3.0 is allowed