CHINESE WINE INDUSTRY: CURRENT AND FUTURE MARKET TRENDS

Tatiana BOUZDINE-CHAMEEVA, Jacques-Olivier PESME, Wenxiao ZHANG
"Wine and Spirits' Business" Research Group,
BEM Bordeaux Management School (FRANCE)
Domaine de Raba – 680, cours de la Libération,
33405 Talence Cedex (France).
tatiana.chameeva@bem.edu ; jacques-olivier.pesme@bem.edu ; w.zhang@bem.edu

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Extended Abstract

The wine industry is one of the most globalized industries in the world. Traditionally, wine has been viewed as a European product. In terms of consumption, the European Union (EU) market is shrinking today, wine consumption per capita in Europe has declined in average from 53 L in 1991-95 to 44 L in 2009 (USDA, 2011). On the contrary, Asian countries as China, Japan, Taiwan, Singapore, Korea have increased their wine consumption during the last five years and today they represent export markets of high potential (Lee et al, 2009).

Our work focuses first on the evolution of wine sector in China analyzing production and consumption trends and the distribution channels development.

Along with its recent and fast economic development, the Chinese wine sector experiences substantial changes in production volumes, consumption habits and importation figures over the past decade.

*Chinese Wine Production:* From 1996 to 2009, wine production increased from 437.3 ML to 810 ML (85%). At the time the People's Republic of China in the 70s, the annual production of wine was about 85 ML per year, while in 2011 the total wine production was 1450 ML. The total market grew 58% between 1996 and 2001, 98.8% between 2001 and 2006, and 192% between 2006 and 2011. With strong agricultural potential and a labor force of 795.5 million, China has an economic advantage in wine production, as there is no shortage of potential laborers at low wages. Governance focuses on enhancing technologically knowledge and improving the capabilities. Capital investments in the sector are assured by 3.3 trillions of dollars of Chinese reserves available in the private and sovereign financial holdings.

*Chinese Wine consumption:* The 290% of increase in consumption in ten years (from 246.9 ML to 964 ML) and sharp increase of wine imports (including bottled wine, bulk wine and sparkling wine) from 12.5 ML to 162 ML (1196%) (Anderson and Nelgen, 2010) confirm that China is rapidly emerging as an attractive market for foreign wine businesses (Jenster and Cheng, 2008; Ritchie, 2009). The volume gain of 583 million liters of grape wine during 1999 to 2004 was the result of government campaigns promoting wine as a healthy alternative to baijiu and spirits, reducing taxes on wine imports. An increasing consumers' purchasing power contributed also into the growing interest in wine. Consumption still centers on entertaining and gift-giving occasions, with two major holidays (the Chinese New Year and the Mid-autumn Festival), which account for 60% of annual wine sales.

Nevertheless the wine knowledge of the average Chinese consumer remains somewhat limited (Lin, 2003). Current consumption per capita in China of 1.12 L in 2012 has room for increases compared to 54 L and 49 L per capita wine consumption in France and Italy.
respectively. The per capita consumption of wine in China has a strong raising tendency; the country presents a stable valuable market for wines in the nearest future.

*Imported wine:* The imported wine accounts for 25% of volume sales in China in 2011 versus dominating domestic wine. As wine importers are competing in the high-end market, their market share in terms of revenue is high. Sales of bottled imported wine grow at nearly four times the rate of domestic wine sales. Chinese domestic wineries distribute their wine mainly using three channels: restaurants and liquor stores; supermarkets, and large warehouse in big cities focused on direct purchases. Expansion of leading retailers will expand the off-trade – supermarkets (62% share); smaller specialized wine stores (14%) are slowly gaining market share. Around 54% of wine sales in China were sold through retail chains.

**Secondly we examine Chinese investments into vineyards all over the world in the last few years.**

The rationale behind those acquisitions operated by both Chinese nationals and foreign investors is in mastering winemaking and winning credit of wine traders. Property agents in Bordeaux report an increasing number of inquiries from potential Chinese investors, sparking talk of a wave of Chinese purchases in coming years. While Bordeaux has received the greatest attention, Chinese acquisitions grow in other wine production centers such as California's Napa Valley, Australian Barossa Valley and in New Zealand. We have conducted interviews with Chinese investors and Chinese wine distributors to understand the process and its probable evolution. Observation demonstrates that wine market in China evolves quickly into a more mature state which will require the deployment of new marketing techniques from wine companies.

Our study has a double purpose: determine the Chinese wine market pattern and analyze its evolution trends in terms of production, consumption, investments and distribution channels' development. The Chinese market continues to evolve and becomes more competitive. In response to changing customer perceptions of wine, domestic firms have to adjust their marketing strategies. They have traditionally focused on lower price tiers, though today the producers target further up-market, invest in world-class equipment and seek for internationally recognized best practices.

**References:**