

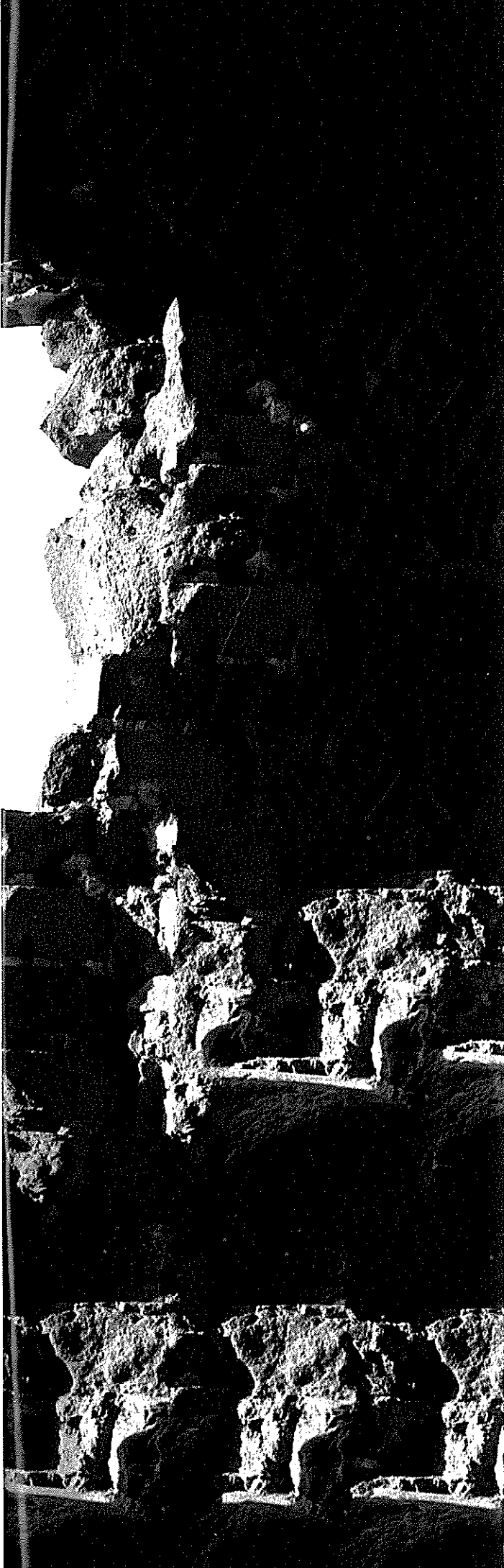


LARRY LOCKSHIN

CHINA

Learning from our mistakes

WORDS LARRY LOCKSHIN



We're making some mistakes in our enthusiasm to crack the Chinese market. The important thing, says Larry Lockshin, is to learn from those mistakes.

China's growing wine consumption is having a major effect on the global wine trade. Growing awareness and consumption of grape-based wine in China has moved from a small number of very wealthy and often older buyers, to an increasing number of younger middle-class consumers. I want to explore some of the effects this growing market is having on the wine trade and how this might shape future market research related to China.

It seems to me that much of the wine trade communications are becoming China-centric, undoubtedly because China represents one of the few growing markets for wine in the world. Even with the recent slowdown of luxury wine consumption due to government regulations on spending, wine consumption is still growing in China. The wine trade seems to be losing sight of some of the possible, unintended outcomes of this very China-centric view.

Firstly, some companies and certainly some national and regional organisations are reducing their focus on traditional markets, where growth is stagnant and putting much more focus on China. This creates more competition in China, which is fine, but reduces the efforts many of these organisations are able to make in other countries. I see some potential losses of market share and awareness in traditional markets for those organisations, which cannot manage to maintain existing marketing as well as develop new markets in China. Much of marketing is about 'running hard' to maintain position in the face of always-intense competition. Adding a new and quite different market to one's marketing activities can easily cause a reduction in effort in existing markets without adding new resources and activities.

The second issue I see relates to routes to market in China. A lot of wineries and regional associations have jumped into the market in the past few years, but the number of reliable distributors and agents has not kept pace. At the same time, the number and range of outlets where wine can be sold is huge – from hypermarkets to corner convenience stores, in restaurants, wine bars and karaoke establishments, and online in both dedicated wine stores as well as in department and other online general retailers. Many wineries selling to China are choosing the first distributor or agent willing to accept them, rather than taking a planned and long term approach. I worry that we will see large amounts of wine shipped into China but not sold until some of these companies go bankrupt and then release their stocks to an already-overburdened market. The result for those wines and

for the regions and countries could be a strong dip in wine drinkers' confidence and image, especially if the wine is damaged due to poor storage. At the same time Chinese producers are ramping up production with millions of litres in storage for release in the next year or so.

Along with routes to market is the need for education and development of the trade. The Chinese are very enthusiastic about wine and there is a growing demand for courses and short-term education. But a lot of what I see is either superficial education, really just wine tastings, or a lack of trying to understand Chinese culture and how western-based grape wine fits in. Many trade organisations are just translating existing materials for the Chinese market, rather than spending time learning about the market and developing skills and tools to penetrate over time. This activity is merely working with the most interested trade and consumers. It is not reaching the newer and developing consumers at all. These trade organisations stand to miss crucial market developments and hence fail to adapt to rapid changes. For example, some seem to be missing the move away from official celebrations and the reduction in the purchase of super high-end wines that has resulted, and the growth of in-home consumption.

China has its own wine sector. We all know this, but to witness the amount of investment and focus on this new sector was eye-opening for me on my last visit. China already has four major multi-million-case wine companies and hundreds if not a thousand smaller wineries. The major companies grow grapes and make wine in multiple regions, but also import wine for both blending and sale. They have huge facilities and real scales of economy. They also have marketing scale in both distribution and brand recognition, which is only going to increase over time, making it harder for competitors, both domestic and international. Our own recent research showed the awareness and recognition of Ningxia was second only to that of Bordeaux and exceeded that of all the well-known wine producing countries and wine regions we tested. This is just the beginning of the force Chinese wineries and wine regions will bring to bear first on their domestic market, and then later on key international markets. All we have to do is think of the number of Chinese communities around the world to get some idea of how big the export market for Chinese wines might be and what the effect on existing sales to those markets also might be.

China is still, well, China. It has a very different culture and history to traditional western wine markets. There are wealthy people gaining interest in wine and buying reasonable amounts, however, it is not clear how much of this wine is actually consumed and how much is given as gifts or stored. When we probe why people drink wine, we find that health benefits are the top reason young and middle-aged people drink wine in China; not what you might expect. In fact, presenting a sophisticated face to others was one of the lowest-rated reasons for drinking wine. There are lots of trade articles and even seminars that focus on sophistication and image, rather than on some of the real reasons the Chinese drink wine.

Finally, there is the debate on what wine styles suit the Chinese palate. Certainly, the most famous wines, classified growth Bordeaux, though appreciated by a minority, are mainly drunk to show wealth and power. With changes to Chinese rules about government and business dinners, this show of power and wealth has moved more to private occasions, which are fewer and smaller than public displays. This is already having a large effect on wine sales at the top end and starting to trickle into sales at the tier below. Our research, and that of others, has shown that the Chinese do like red wines, but prefer fruitier and less tannic wines than Bordeaux when tasting blind, but continue to support more French and European wines when drinking with the label shown. There is little evidence Chinese prefer much in the way of white or rosé wines unless there is some residual sweetness. However, as more people drink wine regularly for pleasure, rather than less frequently for show, tastes are changing, in some cases fairly rapidly. Even Chinese wine, which has been seen as very low quality, is being preferred for informal consumption more often than other countries' wines as both its image and quality improve. Our research shows a major difference between preference in a tasting and what wine Chinese consumers are willing to buy for different occasions.

The following are areas I believe need more research to aid the Australian wine sector in making better decisions about marketing wine to China:

- Route to market – how do producers choose the best representation? Very little work on supplier relationships has been done in China. There is some work on the concept of *guanxi* in business dealings, but certainly more could be understood about the role of developing successful relationships in the wine trade.
- Portfolio marketing – this is an untouched area of marketing; we don't really know how to manage a portfolio of markets, whether for a brand, region or a country. Can we categorise our markets in some way, perhaps by stage of development or cultural similarity/difference and develop strategies and expenditures based on this?
- Wine education – the literature is lacking in research into the effects of different wine education practices on wine preference and purchase patterns. This is especially true from a longitudinal perspective.
- Market evolution – there is not much research on how markets evolve and the effects of policy and practice on such. China (and other developing markets) offer a chance to do this kind of research.
- Comparisons within China: How do different regions develop? What are the key differences and how do they affect trade practices and consumer preferences?
- Chinese wine preferences – there is a need for ongoing research into the flavour and style preferences of Chinese wine consumers, keeping in mind regional differences. This research can extend to the language of descriptions and even to the label and package preferences. ■