China’s Alcoholic Beverages Market

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As Chinese consumers become wealthier, they’re demanding higher quality products, among them better—often imported—alcoholic beverages.

China is the largest market for alcoholic beverages in the world, and foreign alcohol is seeing significant growth. Sales of imported alcoholic beverages are still concentrated on the coast and large urban areas, but demand in the less developed interior is rising, offering great potential for established businesses and new entrants alike.

In 2016, China experienced 15% and 16% year-on-year growth in wine imports by volume and value, respectively. Per capita wine consumption is also expected to increase. Still wine is the most popular and fastest-growing product category, with nearly 55.5 billion USD in sales last year. Among still wines, red wine is the best performer, representing 75% of the total volume.

Imported spirits saw robust growth both in volume and value, especially among younger consumers. The leading type of imported spirit in China is brandy, with 76% of the total value of spirits imported and 44.4% year-on-year growth in 2016.

The Chinese beer market is dominated by low-end mass market brews—primarily pale lagers. However, this segment of the market is dominated by major domestic brands and is quickly saturating. Although high-end imported and craft beers are becoming increasingly popular, showing rapid growth in both sales volume and value over the past five years, they remain a relatively small portion of beer sales in China overall.

To succeed in China’s alcoholic beverage market, businesses should: 1) determine how to feasibly sell in China, 2) localize their brand and product(s) as needed, 3) deploy an effective marketing strategy, 4) find reliable distributors and establish diversified sales channels, and 5) find a professional local partner help navigate common challenges and carry out necessary due diligence and preparation in order to reduce costs and maximize long-term returns.

The experience of St. George Distillery—a producer of spirits—demonstrates the value of investing in determining feasibility and testing the market. Pillitteri Estates Winery’s success in China shows the return firms can enjoy when they accurately assess the market and consumer preferences, properly localize and market their brand and products, and employ the time and due diligence necessary to develop strong relationships with suitable local partners who can help them establish reliable sales channels.
Market Growth: Beer, Wine, & Spirits

China is the largest market for alcoholic beverages in the world. Although dominated by domestic companies, consumption of foreign beer, wine, and spirits is growing, driven by rapid urbanization, increasing disposable incomes, and changing lifestyles; the expanding nightlife culture in cities, an increasing number of Chinese consumers purchasing alcohol for themselves instead of gifts to others, and greater willingness to try new varieties of alcohol.

As of 2016, sales of imported alcoholic beverages were still primarily concentrated in tier-1 and tier-2 cities*, according to Euromonitor. Additionally, rising income levels and improvements in distribution networks and infrastructure for such beverages has made access to these in lower-tier cities easier, driving up demand for imported alcoholic beverages.

*Tiered city systems are used to classify cities in China based on their levels of economic development, population size, and political significance. Tier 1 cities refer to large, densely populated urban metropolises with high levels of economic development—Beijing, Shanghai, Guangzhou, Shenzhen, among others.

Individual Income in China

Average in USD (thousands)

Source: China National Bureau of Statistics
MARKET OVERVIEW

Wine

The Chinese wine market was worth an estimated 38.3 billion USD in 2015 and is expected to reach 69.3 billion USD by 2019. 638 million liters of wine were imported into China in 2016, with year-on-year growth of 15% in volume and 16% in value. The growth of the Chinese wine market can be attributed to growing popularity of wine among the younger generation and rising disposable income. Per capita wine consumption in China in 2016 reached 1.8 liters and is expected to increase dramatically in the coming years.

Still wine is by far the most popular category of wine among consumers in China, reaching sales value of 55,427.6 million USD in 2016. This category is expected to continue leading growth in wine consumption, with a compound annual growth rate (CAGR) of 8.8% from 2016 to 2021.

Red wine is the most popular variety among still wines, representing about 75% of the total volume of still wines sold in China. As the market evolves, Chinese tastes will mature. White wine is anticipated to attract more consumers, especially as the number of consumers who purchase wine for personal consumption—rather than gift giving—increases.
MARKET OVERVIEW

Spirits

China is the largest consumer of spirits in the world. Spirits consumption in China is expected to grow at a CAGR of 3% in terms of total volume, reaching 6.7 billion liters in 2021. However, growth between 2014 and 2021 will be slower compared to the previous period—2009 to 2013—where the total volume increased by 49%. This is due to changing drinking habits; Chinese consumers are drinking less in volume and trading up to better-quality spirits.

Baijiu, the domestic spirit, still dominates the spirits market with a 98% share of total volume in 2016, according to Euromonitor. Growth in consumption of Baijiu has slowed in recent years for two reasons: 1) the Chinese government’s anti-corruption campaign, which mainly affected the high-end baijiu market because such types of alcohol were often purchased as gifts (and a form of graft) and 2) growing health concerns and rising income levels; those who used to purchase lower-end baijiu are shifting to higher-quality beverages with lower alcohol content.

On the other hand, imported liquors saw robust growth both in terms of volume and value. Younger Chinese are not as enthusiastic about baijiu as their older counterparts. Instead, they view imported liquors as better substitutes, associating them with a more outward-looking, modern lifestyle.

Among all imported spirits, brandy, led by Cognac, represented 76% of the total value of spirits imported in 2016. Additionally, it registered the highest growth rate of 44.4% in 2016, making it by far the strongest performing category of imported spirits.
Beer

Domestic Chinese breweries collectively have a controlling share of the beer market. China Resources leads the way with a market share of 24.6%, among 98 beer breweries in China. It's Snow beer, the world's best-selling beer, is a pale lager which does not have a strong taste, but the price is very affordable relative to local incomes—particularly in less wealthy regions of the country—and accessible nationally. Similar low-end lager beers dominate the overall national beer market, with about 80% the total. This has resulted in the low-end segment of the market becoming saturated.

On the other hand, the younger and wealthier consumers living in urban areas are demanding better-flavored, higher-quality, premium beers. High-end imported beer and craft beer are becoming increasingly popular, showing rapid growth in both sales volume and value over the past five years.

Source: Euromonitor, 2015

Source: China Customs, 2016
Determining Feasibility

The AUA Spectrum

The Awareness-Understanding-Affordability (AUA) Spectrum tells you who to sell to, where, and at what price. Many firms fail in China because they haven’t accurately measured the feasibility of selling their product in China and, if feasible, where their product falls along this spectrum, so they can effectively target and invest resources.

Consumer Awareness & Understanding

Awareness and understanding of the different qualities and varieties of non-Chinese wine, beer, and spirits is low in China compared to mature consumer markets, such as the United States or Japan. However, this varies greatly within the country, mostly based on geography and income—which tend to be interlinked. Large urban areas and coastal provinces, generally, are typically the wealthiest local markets in China, with greater exposure to foreign markets and cultures and the disposable income necessary to try new, often expensive (by local standards), foreign goods. Smaller cities, towns, and interior provinces, tend to be in contrast to this—often starkly so. Knowing where your product fits along the AUA spectrum is a major contributor to success or failure in China.

Measuring Affordability & Geographic Targeting

Properly measuring the affordability of your product in China will enable you to determine if there really is a consumer base that can afford to buy your product and, if so, where they’re located. This allows you to employ accurate geographic targeting and focus your resources on those areas most likely to bring commercial success.
LOCALIZING A BRAND & PRODUCT

"Foreign companies often struggle to communicate or alter their brand to accommodate Chinese culture, ways of thinking, and consumer values."

In China, brand loyalty is low, but the value placed on products that project high-quality, unique/novel and luxury is high. Foreign companies often struggle to communicate or alter their brand to accommodate Chinese culture, ways of thinking, and consumer values. It is essential that your brand resonates with Chinese consumers so that it will stand out in their mind as distinct as they’re faced with ever increasing options when shopping.

Localizing your particular beverage's blend, flavor, portion size, and the like are also often important for balancing novelty with familiarity. While some products require little or no localization, others do. Making sure you determine this need and properly localize is important.

DEPLOYING AN EFFECTIVE MARKETING STRATEGY

Although demand for imported alcohol is rising in China, Chinese consumers still have low-brand loyalty and awareness for foreign alcohol. For example, Chinese's awareness of wines is often limited to those from Bordeaux or other famous wine-making regions, though there are many other companies and regions that produce world-renowned wines. Their knowledge of different tastes and varieties of wine, spirits, and beer is still limited.

China's media market, online platforms, and way of consuming advertising is unique and evolving quickly. Foreign companies that want to communicate effectively with Chinese consumers need to master Chinese social media, and understand what will and will not work in China.
Choosing Suitable Sales & Distribution Channels and Partners

**Working with a Distributor**

Working with a distributor is often viewed as a quick and easy way to start selling in China. However, foreign producers have difficulty assessing the true capabilities of individual distributors and their suitability as a partner in China.

Large distributors usually have a regional or national reach and focus on distributing through supermarket chains. However, these chains prefer to sell well-known brands and products from countries already known for a particular type of beverage. For example, German beer, Jack Daniels whiskey, and French wines. Such distributors typically also require guarantees of large volume, prefer established brands, and are risk averse. This poses problems for small or medium producers; the distributor may not be interested or will demand terms unfavorable to the producer.

Although information exists online or in government databases regarding large distributors in China, little or no information is available on smaller distributors. This is important because most distributors in China focus on a specific local area and distribute to bars, restaurants, and other local establishments likely to be interested in offering foreign beverage options to customers. They also tend to be the most receptive to working with small or medium sized producers. However, conducting due diligence is critical and difficult; some distributors are informal or do not understand their obligations and the best way to check is by investigating locally.

**Selling Online**

Online sale is often a good option—both as an option for selling independently or through a distributor. Chinese consumers are comfortable buying online and it offers greater transparency. The key in this case is creating an effective online shop or your own website, securing warehousing and finding a reliable fulfillment company.
St. George Spirits

Company Profile

St. George Spirits is a California-based craft distillery. The firm produces a broad range of spirits, including: gins, vodkas, whiskies, brandies, and several liqueurs. Over the course of its 35-year history, St. George has earned multiple awards for flavor and quality in both the United States and Britain, and coverage in major publications—including the New York Times and Wine & Spirits Magazine, among others.

The Case

With so many years of experience, positive public coverage, and awards under their belt, St. George began exploring whether to sell in the Chinese market, primarily their gins. First, they conducted a feasibility study—assessing pricing, demand, competition, and the overall market environment—and executed a modest soft launch of some of their products in China.

Based on the outcome of the soft launch and feasibility study, St. George determined that, although demand for gin was growing and in the process of transitioning from low-end products, competition for high-quality gins (like theirs) was high. Additionally, consumer awareness was still low, which would require years of high investment in marketing. These factors convinced them that they would have difficulty selling high enough volume to justify the investment—at least for the first few years of operation in China.

For these reasons, they ultimately decided not to enter the Chinese market, though may revisit it as consumption matures. By investing in early testing and feasibility study, St. George saved considerable time and money that would have been lost had they launched blindly into the market.
Pillitteri Estates Winery

Company Profile

Pillitteri Estates is based in Canada’s famous Niagara wine growing region. They produce a broad range of wines, including varieties of red, white, and ice. With decades in the business, they’ve earned numerous awards and have become a major exporting producer to markets on every major continent, including China.

The Case

Pillitteri’s success in China is due to multiple factors. The first factor is timing. It began exploring the market when demand for wine in China was growing and competition was low, giving it an advantage as an early mover in an underdeveloped market.

Second, they correctly assessed Chinese tastes; with many consumers in China preferring sweeter wines, Pillitteri adjusted its product mix, emphasizing ice wines, which are naturally sweeter.

Third, they properly localized their branding, taking advantage of the uniqueness of the narrow bottles typical of ice wines, developing more ornate labels to further appeal to Chinese preferences, while also drawing on the unique characteristics of the winery’s history and place of origin. This mix proved a major success.

Finally, working with a Chinese partner, they were able to establish effective sales channels and develop a marketing strategy that resonated with Chinese corporate buyers and end consumers.

Despite huge and growing demand for wine in China, most foreign wineries do poorly because they fail to understand the market, assess consumer demand and preferences, localize their branding and marketing, and work with suitable partners to establish reliable sales channels. Pillitteri not only produced a good product, but also did everything needed to adapt and thrive in China.
Succeeding in China's alcoholic beverages market requires:

Determining Feasibility

With China’s large population, rising disposable incomes, increasing demand for alcoholic beverages and more preference for better quality, the market holds a natural attraction. This means competition from many entrants, making assessing feasibility all the more important, which includes several components.

First, assess affordability. It’s important to have hard data showing whether or not Chinese consumers can afford your product and, if so, which ones and where. This will allow you to focus time and resources on areas where you have a high probability of achieving commercial success.

Second, measure the level of consumer awareness and understanding of your product. This will provide a good indication of how much time and resources you will need to invest in order to familiarize customers with your product, demonstrate how it fits into their lifestyle, and why they should buy it. This is a necessary precursor to budgeting for and developing your marketing strategy.

Third, determine the regulatory burden and risks; how that will impact your costs and customer price, lead times, importation process, and warehousing.

Fourth, understand existing competition, market growth potential, barriers to entry, and how you will need to price your produce if you want to be competitive.

Finally, you need to know to what extent—if any—you should localize your brand or product to make it more readily understood and attractive to Chinese consumers and how that impacts the financial feasibility of entering the market. Even world-famous brands—such as Coca Cola—have adapted their brand for the local market and altered their product to local preferences.

Doing all of these things will save you time, money, and headache, enabling you to enter the Chinese market with confidence and a clear idea of how to grow your business there.
Localizing Your Brand and Product

To ‘watch and learn’ is often a good strategy for those who want to succeed in life. However, watching and learning in China offers limited lessons. Many foreign firms have not properly localized their brand and products, with many companies exiting the market annually—not understanding why their product failed to take off in China. Even some of the largest brands in China apply a blunt force strategy, merely relying on Chinese consumers to recognize their brand name and make purchases solely on this basis. This can deliver sales, but is not sustainable—particularly as competition and the subsequent need for differentiation and clear messaging increases.

Invest the time and resources necessary to understand how Chinese consumers are likely to enjoy your beverage(s), their motivation for purchasing, and values so you present your brand and communicate your message in a way that both stays true to what your company stands for and resonates with local consumers. This will pay dividends in the long-term and allow you to more easily differentiate yourself in an increasingly crowded market.

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Deploying an Effective Marketing Strategy

Full market strategies will vary by product and firm; however, some ideas are applicable across all products.

Educate Consumers

Although more Chinese consumers are becoming more knowledgeable about imported alcoholic beverages, the majority of them remain unfamiliar. This makes educating Chinese consumers important to sellers. Many organize tasting events or other events that teach them about the product’s quality, varieties, history, and culture. This helps build a good first impression, increase demand and familiarity, create brand awareness, increase the perceived value of the brand, and eventually build brand loyalty.
SOLUTIONS

Adopt an Online Strategy

It is important in any market for companies to adopt a marketing strategy that focuses on their target consumer segment. Most consumers of imported alcohol in China are wealthy, urban, and young (born after 1980). 75% of them often research about alcohol online, and more than half of them frequently use social media as a source of information about their alcohol choices, which makes online marketing critical to succeeding in China. Although most producers sell via distributors in China, marketing is still a must, and making use of online platforms and channels is the most cost-effective way of developing the brands in China.

Choosing Suitable Sales and Distribution Partners

Large producers are going to focus on developing relationships with large distributors in China with regional or national reach. Given the ability to deploy large volumes, this is sensible. Such companies also have the internal resources to conduct proper due diligence and navigate China’s legal landscape, though most large distributors are known to foreign government agencies, making their authenticity easily confirmed. As well, these tend to be experienced outfits well aware of their obligations and with expansive and established distribution channels.

Small and medium producers, by contrast, are going to find more interested partners in local or provincial distributors. Although many such distributors are experienced, reliable, and have well-established distribution channels, many are not and confirming which is the case with a particular distributor is difficult. Any government records which might exist, are likely to be solely in Chinese.

Although producers can try to carry out proper due diligence on their own, it’s best to work with a local third party to do this, taking advantage of their understanding of the Chinese market, legal landscape, language, regulatory system, and way of doing business. Once a company has identified a suitable local distributor which has passed inspection, the third party can assist with establishing a formal relationship with the distributor and ensuring all agreements are fair, transparent, and legal.
China’s alcoholic beverages market continues to enjoy strong year-on-year growth, with the high-end segment seeing particularly strong demand; younger and wealthier consumers are demanding better-quality premium brands because of the association with success, wealth, and modern lifestyles.

Companies wishing to sell in China should: 1) determine how to feasibly sell in China, 2) localize their brand and product(s) as needed, 3) deploy an effective marketing strategy, 4) find reliable distributors and establish diversified sales channels, and 5) find a professional local partner help navigate common challenges and carry out necessary due diligence and preparation in order to reduce costs and maximize long-term returns.

Feasibility can be determined by measuring the affordability of your product, creating an appropriate pricing strategy, understanding existing competition, assessing consumer awareness and understanding of your product, and geographic targeting.

Localization can be addressed by assessing to what extent your brand and/or product(s) ought to be adjusted to fit the Chinese consumer market and how this can be done within a defined budget.

For wine, spirits, and beer educating consumers needs to be a key part of any effective marketing strategy. This should be combined with clever use of Chinese online platforms and social media, which are often the primary gateway for consumers to learn about products.

Finding a reliable distributor can be challenging—particularly for small and medium producers. This can be solved by working with a reliable local partner who knows the market, language, legal framework, and way of doing business to carry out due diligence, facilitate communication, and ensure all agreements are fair, transparent, and legal.