Liquor consumption in China has undergone a huge change over the years. Due to increasing income, many consumers can now afford premium and foreign brands. Over 83 million liters of liquor were exported to China in 2018, a 13.74% increase from the previous year. Sales are also high not only in first and second tier cities, but also in less developed areas.

The Chinese equates foreign liquor with prestige and luxury. Brandy is the drink of choice for the wealthy and a symbol of power among businessmen. Cognac is its most marketable variety. Other imported liquor have also started gaining grounds in the market. Import volume of whisky has a year-on-year growth of 11.2%. Sales of vodka, rum, tequila and gin imports are also up.

France, Sweden and the United Kingdom continue to dominate China’s liquor imports. Huge companies like LVMH (maker of Hennessy and Belvedere), Pernod Ricard (maker of Martell, Chivas Regal and Absolut) and Diageo (maker of Johnnie Walker and Smirnoff) have huge shares in the market. Among local spirits, baijiu remains the top drink of choice for many Chinese.

To succeed in China’s liquor market, businesses should: 1) understand the competition in the markets, 2) determine which local markets to target, 3) set up the right pricing profile, 4) craft a successful branding strategy, and 5) find reliable local partners to achieve sales goals in the market.

The experience of Monkey 47 – a German gin brand – demonstrates the value of investing in determining feasibility and testing the market. Rémy Martin’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.
China is currently one of the world’s biggest spirits consumers. While local liquor continue to dominate the market, there is a growing demand for foreign brands. In 2017, the country brought in 52.81 million liters of liquor, increasing import volume and value by 27.69% and 37.75%, respectively.

In the past years, there is an apparent shift in the Chinese’s taste and preference in spirits. While baijiu remains as China’s favored drink, a huge number of consumers are trying out imported brands. The rise of the country’s middle class population, as well as the increasing incomes, have allowed many to afford premium and more expensive alcohols.

Imported liquor consumption is high in first tier cities like Beijing, Guangzhou, and Shenzhen where there is easy accessibility to different alcoholic beverages. Shanghai consumers drank around 4.85 million liters of whisky in the first quarter of 2017. Six out of ten spirits consumers in China are male, but the number of female drinkers has been steadily increasing. More young people are also drinking for personal/casual consumption.

Money and social status play a huge part in China’s choice of liquor. For many consumers, there is a strong correlation between imported brands and luxury. Serving foreign spirits in parties is an opportunity to show off the host’s wealth. Extravagant gift giving, especially of alcoholic beverages, remains a huge Chinese tradition.

Due to the growing distrust for domestic spirits, more consumers are choosing foreign brands that are known for quality and safety. In the past year, China’s liquor market has been inundated with counterfeit products. As a result, sales of brandy, whiskey, and other imported alcohols rose in volume.
Liquor in China

Traditionally, China is a brandy market. It registered the highest growth rate of 44.4% in 2016. Cognac is the most popular variety with about 22.6 million bottles shipped to China last year. Whisky is also becoming huge in the Chinese market, with a year-on-year increase of 11.2% in import volume.

Other foreign liquor are also making inroads. Vodka imports increased by 71%, with China bringing in 2.64 million liters or US$7.14 million worth of vodka in 2017. There is also significant growth in volume and value of rum, tequila and gin imports. Among local spirits, baijiu sales remain strong, reaching US$286.5 million last year.
In China, cognac is regarded as a drink for celebration. It is also seen as a symbol of power in the business world. France remains the top source for the country. Four giants in the cognac world dominate the market – LVMH’s Hennessy, Pernod Ricard Group’s Martell, Rémy Cointreau Group’s Rémy Martin and Camus.

For whisky, the top supplier to China in 2017 was the United Kingdom with US$54 million worth of liquor shipped. It was followed by the US, Japan, Taiwan and South Korea. Top brands are Chivas Regal and Ballantine’s of the Pernod Ricard Group, as well as Johnnie Walker of the British multinational company, Diageo.

Sweden, on the other hand, ranked one as the country’s biggest vodka source. UK, France, Poland and the U.S completed the top five. Biggest brands are Pernod Ricard Group’s Absolut, Diageo’s Smirnoff and LVMH’s Belvedere. Other high-end brands that are gaining popularity are F Vodka, Ice Fox and 42 Below.
COMMON CHALLENGES AND SOLUTIONS
Evaluating Competition

The spirits market in China is competitive in unique and complex ways. Many firms fail because they didn’t understand the competition in the market(s) they want to enter.

The Competition Analysis evaluates the product, market size, growth outlook for the product in the market, provides a representative sample of competing brands, reviews competition by varietal and price level, analyzes strengths and potential challenges, and provides recommendations.

Geographic & Demographic Targeting

Knowing your target market and customers is key to success. For Mainland China, in particular, it can be difficult to know where to start in a country of nearly 1.4 billion people. The Target Market Analysis (TMA) determines which local markets to target (e.g. Beijing), creates a detailed profile of your ideal customers and provides guidance on the type distributor you should work with.
Foreign companies often struggle to communicate or alter their brand to accommodate Chinese culture, ways of thinking, and consumer values.

Determining Market Pricing

Pricing is one of the most important factors impacting consumer decision-making. A successful pricing strategy allows your products to stand out among competitors’ and match consumers’ willingness to pay.

The Marketing Pricing Analysis (MPA) examines how your product’s pricing profile or estimated local retail price in the market compares to the average national price for your product in the market, as well as how your pricing compares to the prevailing average price in each of the local markets identified in the Target Market Analysis, analyzes your position in the market, and provides recommendations regarding your pricing strategy.
To enjoy long-term growth, brand recognition, and added brand value a company needs to prepare their branding for the target local market.

The Branding Analysis looks at your existing or planned branding—including labelling, packaging, messaging and other brand assets—and measure how it compares to competitors, determine the best course of action to differentiate your brand and make it appealing to both your likely sales partners and target end-consumers.
You want to know if a potential sales partner is reliable, trustworthy and capable of helping you achieve your goals in the market. However, foreign producers have difficulty assessing the true capabilities of individual local distributors and their suitability as a sales partner.

The Distributor Due Diligence Assessment takes the mystery out of choosing a local sales partner by finding businesses with a track record in the industry and interest in your product, then carrying out proper due diligence to confirm key details about their business, capabilities, and likelihood of being able to help you achieve your sales goals in the market.
CASES
The Case of Rémy Martin

Company Profile

Rémy Martin is a French firm under the Rémy Cointreau Group of France. It is one of the biggest cognac producers in the world. The Rémy Cointreau Group has origins dating back to 1724. Aside from the Rémy Martin cognac, its international portfolio includes liquors under the Cointreau, Izarra and Passoa brand names, as well as liquor under the Mount Gay, St Remy, Ponche Kuna and Metaxa. The company is also the sole distributor of the Piper-Heidsieck, Charles Heidsieck and Piper Sonoma brands.
The Case

Rémy Martin entered China’s spirits market in 1980, at the beginning of the economic reform. Over 60 percent of its cognac sales is from the Asia-Pacific region, with China as its main market. Much of the company’s success in the region is due to its intensive marketing efforts to reach out to China’s bread and butter drinker demographics. Its strategy is two-pronged, capturing both the wealthier middle-aged male consumers, as well as the younger fuerdai or the children of the nouveau riche.

The company recognized the growing demand for premium liquor among the young drinkers in the mainland. Its 2013 promotions included having the popular Taiwanese pop star Jolin Tsai endorse its limited edition Rémy Martin VSOP. Other events launched were all aimed at the country’s upwardly mobile middle-class.

Rémy Martin also took advantage of the Chinese’s increasing affinity with social media, becoming the first spirits brand to advertise on the WeChat platform in 2015. Its campaign focused on art de vivre, one of the company’s key brand values, by recommending personalized contents and product suggestions to WeChat’s 500 million users. Currently, Rémy Martin is one of the best-selling cognac brands, not only in China, but in the world.
Monkey 47 is an unusual gin from the German company, Black Forest Distillers. Its roots date back to the 1950s, when a retired British commander experimented with plants and herbs in the Northern Black Forest region to replicate the taste of alcohol from his native country. In 2006, Black Forest Distillers found the commander’s recipe and decided to revive it. After a successful launch in Europe, the company introduced Monkey 47 in the U.S. in 2014. Currently, the gin is available in over 50 countries.
Black Forest Distillers decided to introduce Monkey 47 to the Chinese spirits market in 2015. It is one of the most expensive gin brands, selling at 550 RMB (US$80) per bottle. Monkey 47 was the first of its kind to be displayed on the shelves of Shanghai supermarkets and later on, to be sold in 19 other Chinese cities. A year later, Pernod Ricard, one of the biggest foreign alcohol companies in China, announced its acquisition of the majority share of Monkey 47.

While Monkey 47 is a hit in other countries, more work is needed for it to enjoy the same popularity in China. Gin only accounts for less than 3% of the imported liquor market. Whisky and brandy are the Chinese’s drinks of choice, as shown in their annual sales. Still, the people behind Monkey 47 continue to make a valiant effort to gain the attention of the Chinese consumers, majority of which has limited knowledge on different tastes and varieties of gins.

Monkey 47’s packaging and design smack of artisanal craftsmanship, a major draw for consumers with an eye for sophistication. It also features an unusual aroma, unlike the strong woody smell of traditional dry gins. The drink also has an intense flavor, bold and complicated. Juniper is not the predominant taste, something refreshing for the Chinese’s untrained palate. Currently, Monkey 47 is considered a favorite for bartenders in making cocktails like martini, sling, or gimlet.
CONCLUSION
China's spirits 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) evaluate the competition, 2) determine which local markets to target, 3) examine how product's pricing profile compares to the average national price, 4) analyze branding including labelling, packaging, messaging and other brand assets, and 5) carry out necessary due diligence to find a professional local partner to achieve sales goals in the market.

Competitions are evaluated through the Competition Analysis where product is assessed in terms of growth outlook, varietal and price, then compared to existing brands in the market.

Local target markets are determined through the Target Market Analysis (TMA) where profiles of ideal customers are created and guidance on choosing the appropriate distributor is provided.

Market pricing is calculated through the Marketing Pricing Analysis (MPA) where product's pricing profile is compared to the average national price and the prevailing average price in the market.

Brand positioning is established through the Branding Analysis where the product's brand assets are measured and differentiated from competitors in the market.

Finding a reliable distributor, though can be challenging particularly for small and medium producers, can be accomplished through the Distributor Due Diligence Assessment where local sales partner with the best track record and appropriate background are recommended.

Work through a reliable local partner who knows the market, culture, can carry out due diligence, facilitate communication, and ensure all agreements are fair transparent and legal.
WE ARE MERSOL & LUO

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