



# A Toast To the Chinese Wine Market

Mainland China has recently acquired a keen taste for wine. Watson's Wine is all set to meet the needs of this emergent market

*By William Martyn*


IN CHINA much can change in a comparatively short time. Ten years ago Western grape wine was a marginal drinks category for the country's 1.3 billion potential consumers. Although there was both production and consumption, it was nothing to compare with the huge markets for beer and local and imported spirits.

Today all eyes in the world's wine trade are on the emergent Chinese market, which Watson's Wine has just entered as a retailer with its first outlet in Shanghai.

"If you look at Hong Kong you can see a bit of a preview of how China will evolve, even though Hong Kong at the moment is a much more sophisticated market for wine than China," said James Hepple, Watson's Wine Operations and Marketing Controller.

"There is still a preference for Bordeaux and a fascination with French wine which will be there for a while yet."

Although new markets usually start with cheap, sweet, white wines, and move towards drier, more sophisticated and more expensive reds, China started with top end red Bordeaux. They also usually take many years to develop a base of regular drinkers, but in the major Chinese cities this has happened virtually overnight.



**Watson's Wine has substantially increased its retail presence, with the opening of five new shops, including one in Shanghai.**

According to the latest study conducted by International Wine and Spirit Research (IWSR) for the wine and spirits trade fair organiser, Vinexpo, from 2004 to 2008 China's consumption of wine almost doubled, increasing by 80 per cent.

Between 2009 and 2013 consumption is projected to increase by 31.58 per cent to reach 1.26 billion bottles – a figure almost equivalent to one bottle annually per capita for the entire population of the country.

China is now the eighth largest consumer of wine in the world, and by 2013 is expected to rank seventh, with annual consumption of more than 100 million nine-litre cases.

Not only has the country suddenly become the focus of attention for wine producers all over the world, but the sheer scale and scope of the Chinese market has raised the importance of wine exports as a national priority. President Obama himself has said that he wants to see US exports of wine to China double within five years.

Australia, which currently ranks second only to France as a supplier to China, doubled exports to 46 million litres in 2009-2010, and China is now the biggest export market for Bordeaux outside Europe – partly due to a contraction in the UK and US markets during financially hard times, but also to phenomenal sustained growth in consumption in cities such as Beijing, Shanghai and Guangzhou.

Wine appreciation is an area in which China has followed Hong Kong's lead. The city now ranks as the leading wine market in Asia with annual per capita consumption of 3.6 litres among residents of legal drinking age. This puts Hong Kong significantly ahead of both Japan and Singa-

pore, the other most mature markets in the region, where per capita consumption is 2.5 litres and 2.1 litres per year respectively.

It is fair to say that Watson's Wine has been one of the most important contributors to building Hong Kong's wine culture. Moving from its initial market position as a wine merchant covering all price points to its present role as a supplier of fine wines, mostly priced at above HKD200 (USD25.60) per bottle, Watson's is now the city's largest specialist wine merchant with a steadily expanding presence in Hong Kong, Macau and now Mainland China. An excellent range of more modestly priced wines, some previously carried by Watson's, is available from PARKnSHOP.

Wine consumption in Hong Kong increased by 75.9 per cent between 2004 and 2008, and the Vinexpo/IWSR study forecasts that growth will be around 70.8 per cent between 2009 and 2013, reaching 4.793 million nine-litre cases, the equivalent of 57.5 million bottles.

The market received a huge boost when wine tax was reduced to zero in the 2008 budget, and the Hong Kong Government announced its intention to establish the city as "the wine hub of Asia". It has since overtaken London as the world's second most important city for fine wine auctions, and looks set to surpass New York. In value terms, wine consumption in Hong Kong in 2010 surged 72 per cent over

2009 to HKD4.67 billion (approximately USD600 million).

Red wines account for 80.6 per cent of the consumption of all still non-fortified wines drunk in Hong Kong, while white wines represent 16.1 per cent and rosé 3.3 per cent – notwithstanding many proven successful pairings of white and rosé wines with Chinese cuisine. All market segments are growing, but between 2009 and 2013 red wines are expected to grow faster than the others.

Similarly in China red wine consumption accounts for 88 per cent of the overall consumption of wine, but with the increase in women's interest, white is also growing. Between 2009 and 2013 the consumption of white wine is expected to expand by more than 40 per cent.

Although consumption of high end wines is French-dominated – the leading Bordeaux Chateaux are recognised as lifestyle defining brands in the same way as Louis Vuitton and Mercedes-Benz – wine made, or at least bottled, in China still dominates the market, accounting for almost 90 per cent of national wine consumption.

They are expected to grow at a rate of 26.7 per cent between 2009 and 2013.

The market for imported wines however is

growing faster. Their consumption increased fourfold between 2004 and 2008, and is expected to grow by 65.6 per cent between 2009 and 2013, reaching 16.765 million cases and accounting for 15.8 per cent of consumption of all wines.

Watson's has been planning its entry to the China retail market for some time. The company already has a wholesale presence in Beijing, Shanghai and Guangzhou, and it was determined that Shanghai should be the first city on the Mainland with its own Watson's Wine store. It opened in December.


"It is in Xintiandi and it's in a heritage building, a stone house or Shi Ku Men, and as well as all the restaurants in that area, and us, there are now Cartier and Louis Vuitton, and the Langham Hotel. It has become a really premium up and coming area and we think it's a great spot," said Mr Hepple.

The store, which is one of the first to reflect Watson's Wine's new design concept (*see sidebar*), occupies two stores spread over 1,500 square feet, and includes a tasting area and two separate sections for high end fine wines.

Watson's Wine is now the agent in China for the Domaine de la Romanée-Conti, one of the greatest estates in Burgundy and an iconic French brand.

"The level of maturity and sophistication in the wine market is at a higher level in Shanghai than in Beijing. That's probably the next step, but we'll prove ourselves in Shanghai first. We'll focus on a few more stores in Shanghai next year, if we can find the right locations," said Mr Hepple.

The store carries no Chinese wines, which according to Mr Hepple are regarded in China "more as a commodity", and like the Hong Kong branches is focused on the higher end wines which have been identified as the fastest imported growth category in the near to medium term.

"We think we've chosen the right time to enter the market," Mr Hepple concluded. 

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A comprehensive brand makeover includes a new premium look for the stores – a fusion of modern elements with a heritage feel.





## 2010 – A Good Vintage for Watson's Wine

Last year was an eventful one for Watson's Wine with a substantially increased retail presence in the Hong Kong home market, the opening of the first store on the Chinese Mainland, the construction of a new state-of-the-art Hong Kong warehouse, and a comprehensive makeover for the brand.

"For the last few years, we've had strong double-digit growth. That sped up when tax went down to zero. It gave the market a shot in the arm and therefore us as well," said James Hepple. This year alone we've opened five new shops, bringing the number to 20, so proportionately for us, that's huge. We've opened in Cityplaza in Taikoo Shing, in Times Square, in K11, in East Point City in Tseung Kwan O . . . and in Shanghai."

The Shanghai and the K11 stores introduce a new look Watson's Wine – "Cellar" has now been dropped from the name – and reflect the company's confidence in a bright future for the Hong Kong fine wine market. "We're a quality premium wine retailer, and we wanted a look which captured that more – something with real substance," Mr Hepple explained.

"We chose a well known Hong Kong designer, Alex Choi Design, who has gone for a fusion of modern elements with a heritage feel. The lighting feature on the fascia is made with cut wine bottles. He's gone for a modern look with the window displays, but with earthy tones inside, and a ceiling that reflects the look of a traditional French wine cellar with its brick arches. We think it's hit just the right spot for positioning in the market."

Another feature of the store is a wall-mounted iPad, running a new "app" for Watson's customers designed to allow them to browse the store, keep track of Watson's Wine events, and make purchase decisions on line, as well as maintaining their own wine diary.

A new 40,000-square-foot purpose built warehouse in Kwai Chung has also allowed Watson's Wine to bring wines previously stored in France or England to Hong Kong, and to expand its wine storage service to Hong Kong customers. Investors in wine who may wish to resell their purchases at auction at a future date now have an impeccable guarantee of their provenance.

"We've got a base of about 30,000 members, and in Hong Kong people are quite often short of space. We introduced the service so people can buy wine and not be held back by what they can store in their apartments. We have just been certified by the Hong Kong Quality Assurance Agency," stated Mr Hepple.

