Lili Tong– China Wine Industry Professional

Lili Tong

Professional training, CERTIFICATES & DIPLOMAS

-Wine & Spirits Education Trust
-Diploma
-Barossa Wine Master

PROFESSIONAL EXPERIENCE

Man Zhou Xiang Winery, Penglai City, Shandong Province, PRC

-Managing Partner & Owner
-Vineyard Director
-Winemaker

International Wine Competition Judge

-Berlin Wine Trophy - Berlin, Germany
-Asia Wine Trophy - Seoul, Korea
-Barossa Wine Show - Adelaide, South Australia
-Concours Mondial de Bruxelles - Beijing, China
-China Ice Wine Show – Huan Ren, China
-RVF China, China import wine selection - Beijing, China
Wine100 - Shanghai, China

Magazine Consultant and Contributor

-Regularly consulted for and submitted articles for magazines on wine topics

Dior Fragrances

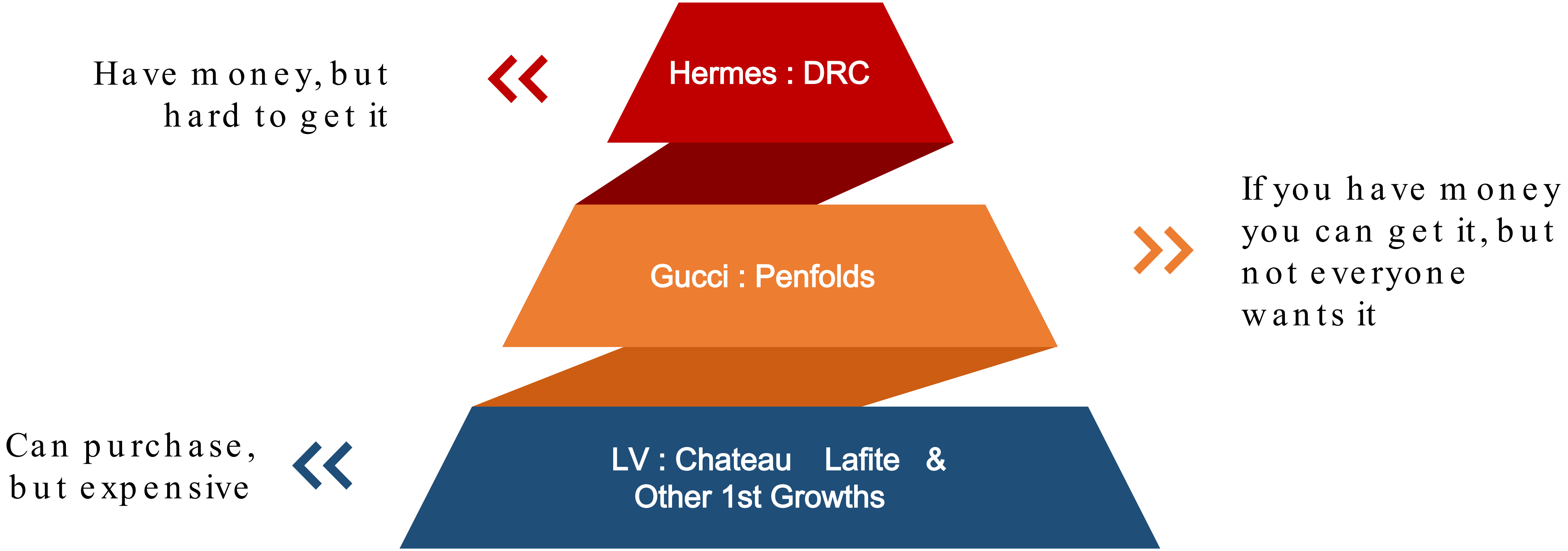
-Brand Ambassador

The Evolution of Wine as a Luxury Consumer Product in China

TONG LILI

What is Luxury in China?

Luxury has a broad definition …
What some people think is luxury is another person everyday product



Four Generations

China’s 1st & 2nd Tier Cities

Luxury market purchasing behavior influenced by each generation’s formative years experience

From
1960-1979

From
1980-1989

Millennials

Gen Z
(Post-2000’s)

1960-1979 Generation

Spending priorities include face, home renovation, health improvement and retirement

1980– 1989 Generation

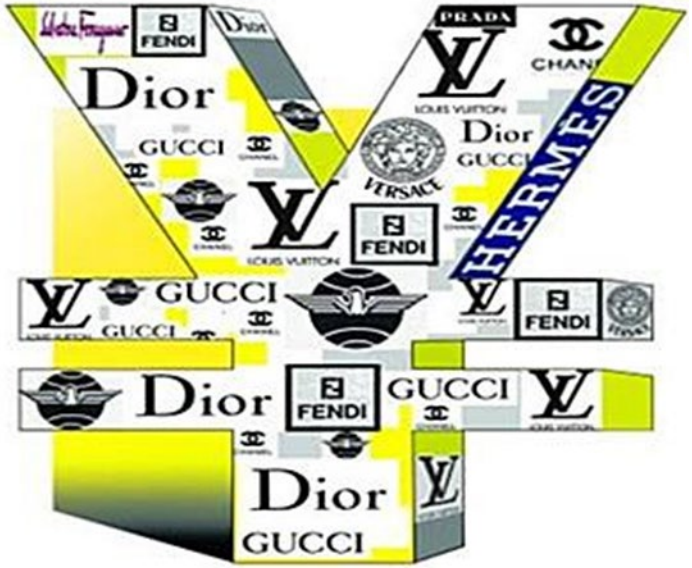
Society’s Leaders & Influencers

Significant consumer target market but priorities are not luxury

Goldlion®
金利来

Millennials and Gen Z (Post-2000's)

Spend Everything & Enjoy Life Generation



1960- 1979Generation(1/2)

Influential, Wealthy but Conservative Spenders

Have the most money and power to buy, but no longer targeted by luxury brands

Give and receive wine as gifts. Used n drink, but as a decoration in the hom

Purchase products for kids and grandkids influenced by current trends

Mainly drink spirits, but will buy first gro Bordeaux or other famous label wines important occasions such as wedding graduation, birthdays, etc.

Women control the household money

Men still primary decision maker on wi purchases

1960-1979 Generation (2/2)

Influential, Wealthy but Conservative Spenders

Very stubborn → Loyalty to one brand or category

Main purchasing channels are friends and suppliers with whom they have a relationship → Heavily influenced by friend circle on w wines to purchase

1980– 1989 Generation (1/2)

Significant consumer target market but priorities are not luxury

Have less savings → Purchase wines, sensitive to the pric

Better English and more foreign exposure → More open to different styles of wine ma and varietals

1980– 1989 Generation (2/2)

Significant consumer target market but priorities are not luxury

Sensitive to pricing and promotions

Main channels are wine shops, superma
and internet especially during promotion
11-11) and festival periods. Can be stim
to make purchases

Enjoy eating and drinking

Have little Chinese spirits experience, so
fixed on high alcohol wines.
Enjoy beer and wine

Millennials and Gen Z (Post-2000’s)

Primary target for all brands due to spending behavior & willingness to try new things

Sensitive to pricing and promotions

Target of all brands

Best educated and travel a lot overseas

Open to all types of wine, varietals, sty
categories. Sparkling wines are very
popular in clubs

Enjoy eating, drinking and new fashion trends

- Less loyalty
- Short attention span when purchasing

The Evolution of the Distribution & Retail Channels in China

JOHN WATKINS

37 YEARS LIVING, WORKING & CONTRIBUTING IN CHINA

2017 CEO, Asia – The VOID

2015-2017 Country Director, China - CRH plc

2012 - 2015 Chief Executive Officer, ASC Fine Wines

2010 – 2012 Senior Executive, Business Operations
GE Aviation
President & CEO, GE AVIC Civil Avionics
Systems Company Ltd. (AVIAGE Systems)

2009 – 2010 Chairman, The American Chamber of Commerce in China

2003-2009 Vice President – Cummins Inc.
Chairman & CEO – Cummins (China) Investment Company Ltd.

2001 - 2005 Chairman, Beijing International Christian Fellowship

1999 - 2002 Chairman, China Board of Airline Representatives

1998 Vice President – China

1996 Vice President – Customer Service and Ground Operations, (US)

1995 Director – Special Projects (US)

1992 Managing Director – Hong Kong, China and Taiwan (China)

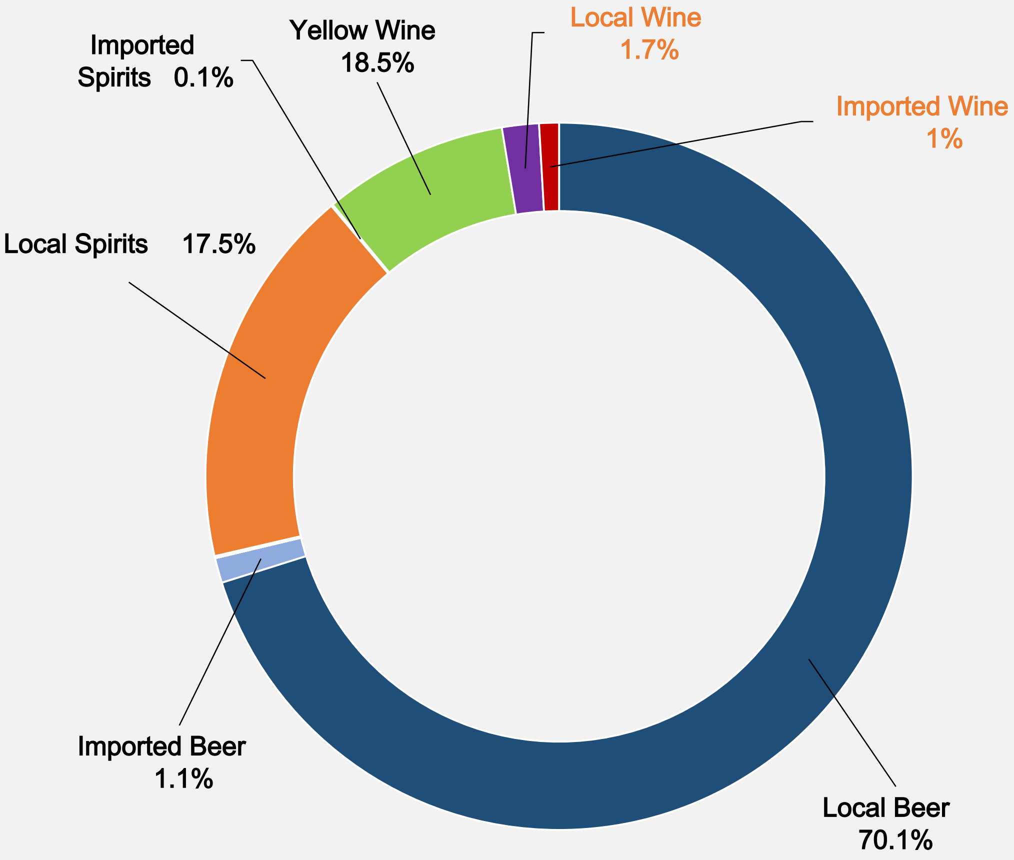
1988 General Manager – Hong Kong and China/Deputy General Manager (China)

1984 Manager, Beijing and Sales Representative, Shanghai (China)

1982 Graduated Miami University of Ohio / Commenced Chinese Language Studies, Shanghai

Mainland China Market ~~t~~ All Alcohol

- Wine (local and imported) represents a very small percentage of overall alcohol sales
- Ratio between domestic -imported changed from 5:1 to 2:1 from 2013 -2017



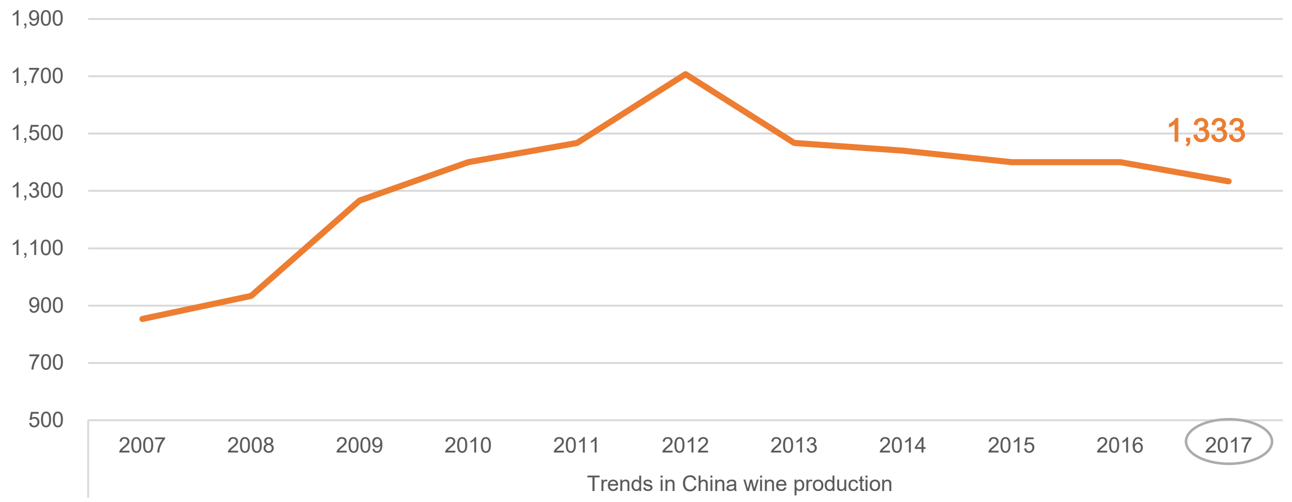
Category	2013 (m 9L Cases)	2016 (m 9L Cases)	2017 (m 9L Cases)	2017 vs. 2016	CAGR 2013-2017
Beer Local	5,624.40	5,007.2	4,890.6	-2.3%	-3.4%
Beer Import	16.2	71.8	79.6	+10.9%	+48.8%
Cider Local	0.0	0.2	0.2	+21.2%	+49.5%
Cider Import	0.1	0.3	0.3	+11.5%	+26.0%
RTD Local	4.2	6.9	6.0	-12.3%	+9.2%
RTD Import	0.1	0.2	0.2	+34.6%	+18.6%
Spirits Local	1,173.1	1,212.0	1,219.0	+0.6%	+1.0%
Spirits Import	5.7	5.2	6.0	+15.8%	+1.5%
Yellow Wine Local	550.0	580.0	590.0	+1.7%	+1.8%
Wine Local	152.1	128.6	117.7	-8.5%	-6.2%
Wine Import	32.1	55.2	63.1	+14.4%	+18.4%
Total	7,558.2	7,067.5	6,972.7	-1.3%	-2.0%

*Wine in this chart includes still wine, sparkling wine, fortified wine, etc.

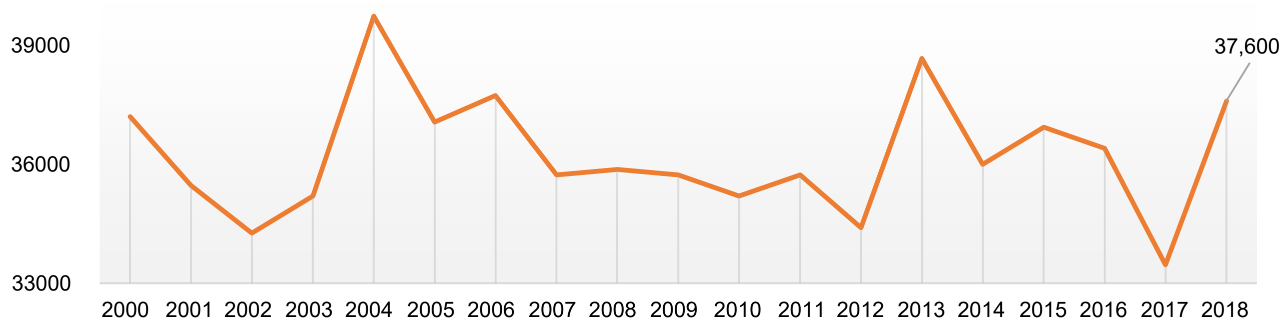
China vs. Global Wine Production & Consumption

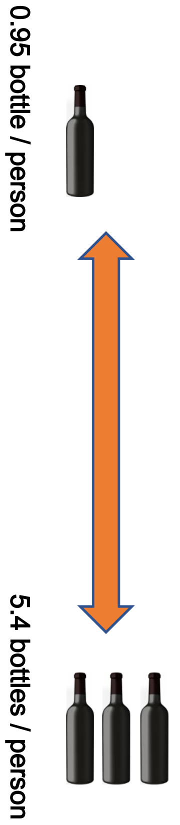
- China's per capita consumption well below global average - opportunity

China Wine Production (Mbtl)



World (Mbtls)



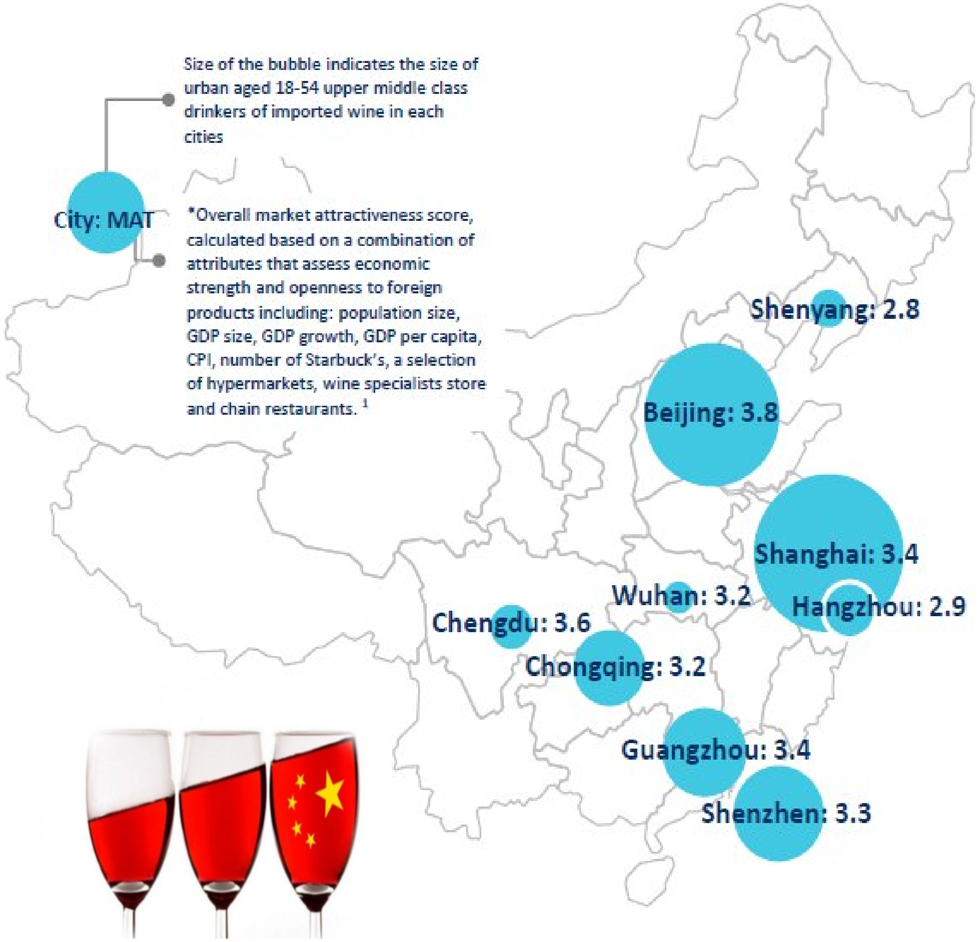


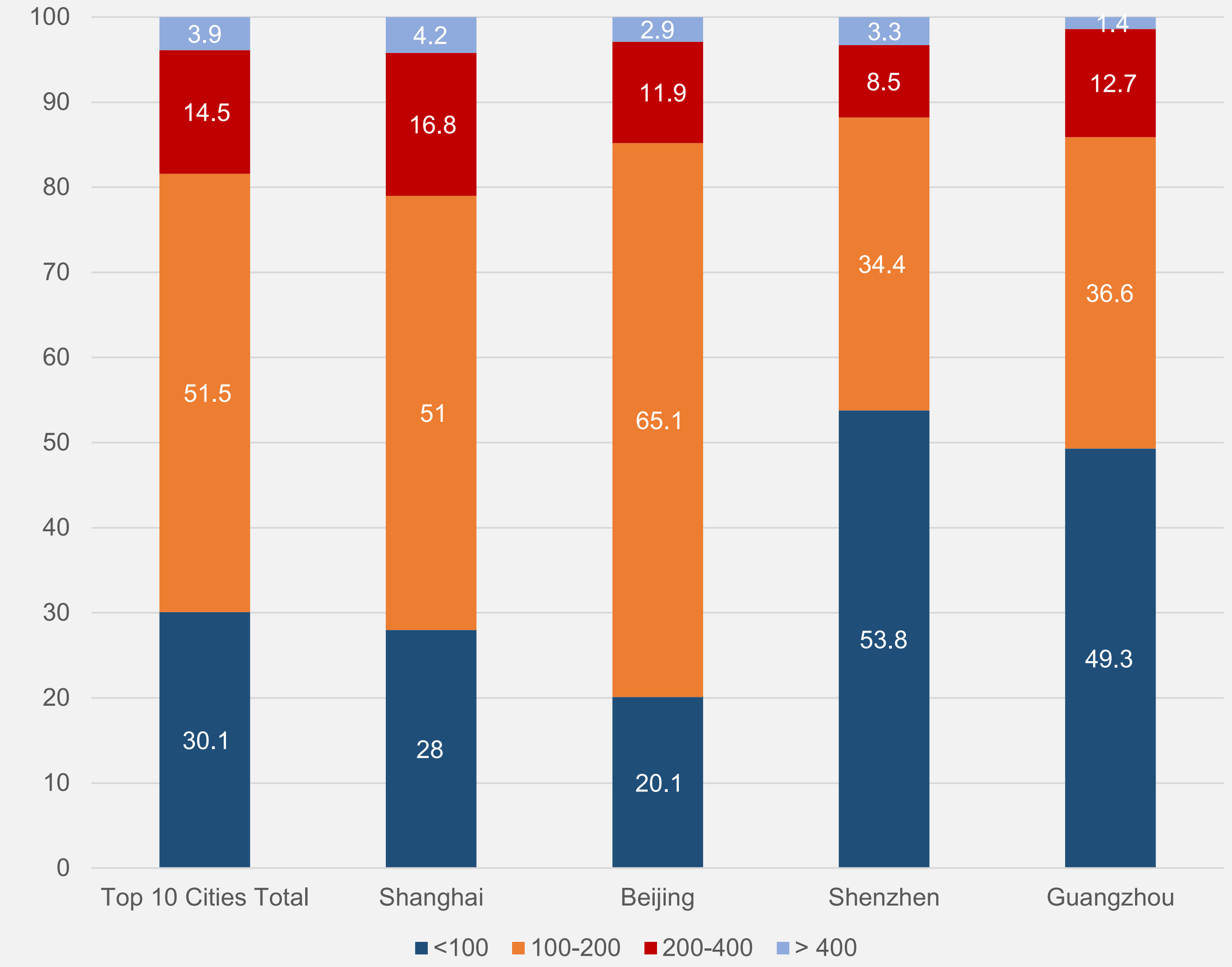
24 Top -Wine Producing Countries

Imported Wine Market Demographics – Price & Market Size by MSA

- China is many distinct markets … more like the EU not USA

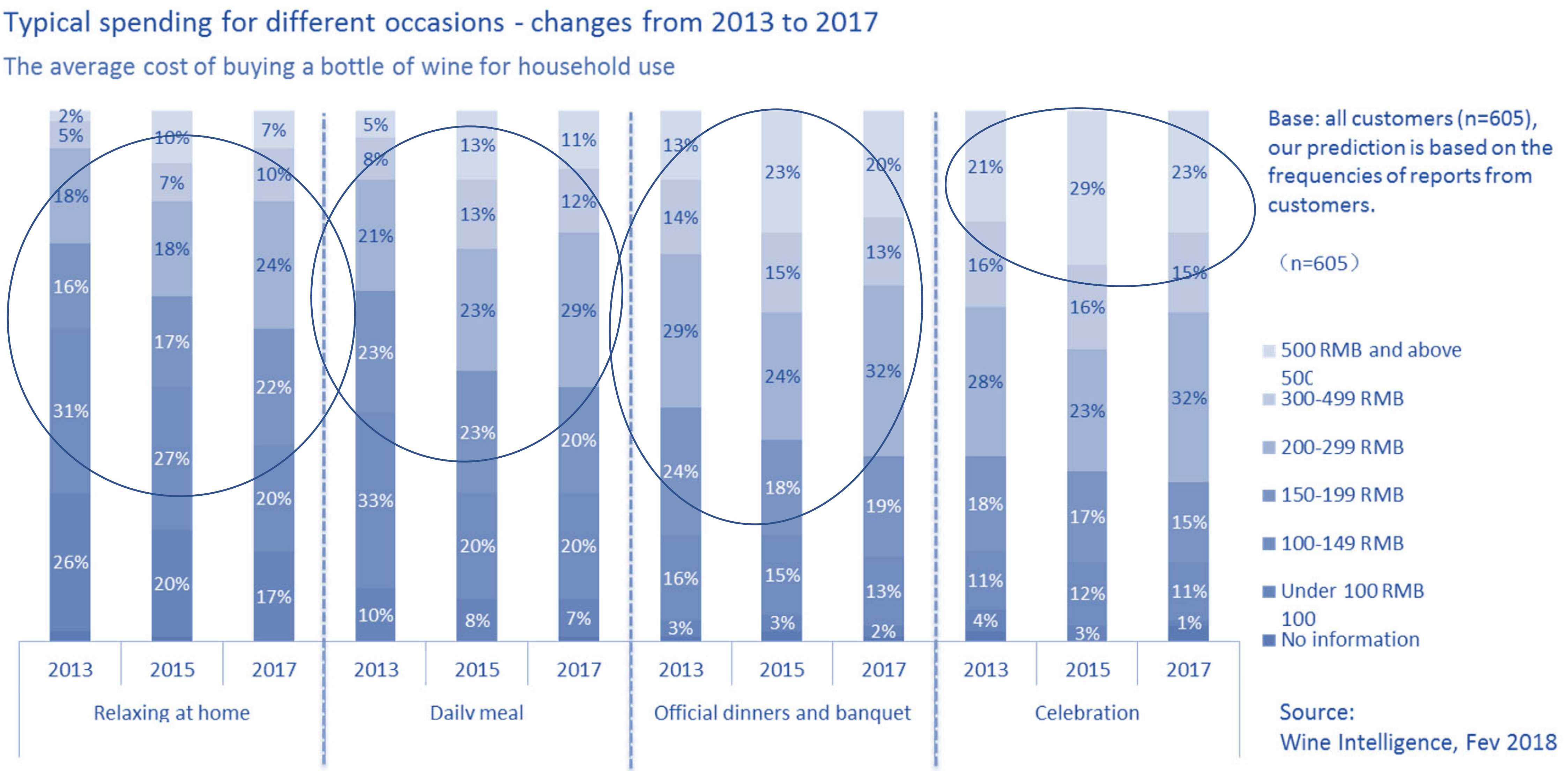
Where are they ?





Imported Wine Market Evolution of Pricing by Occasion

- Average spend increasing regardless of occasion but higher when outside of home

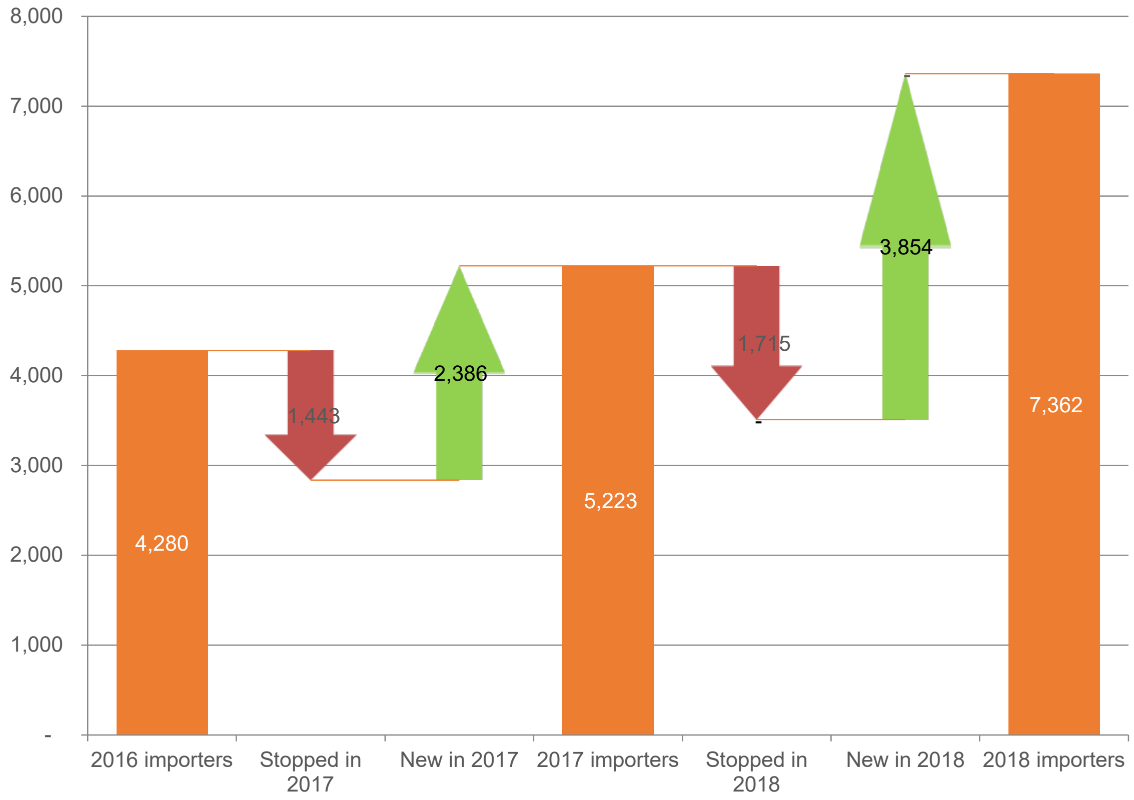


China Wine Market Major Players

- Value chain highly fragmented and competitive

China Wine Market Major Players - Importers

- Highly fragmented market with 5000-7000 Importers
- 4-5 top well-known firms
- Majority imported wines in range of RMB30-35 per bottle (CIF)
- Moving from non-brand-owning distributors to brand-owned or brand-directed distribution



Top 3 Importers vs. Total Market:

- 5-6% in value
- 2-3% in volume

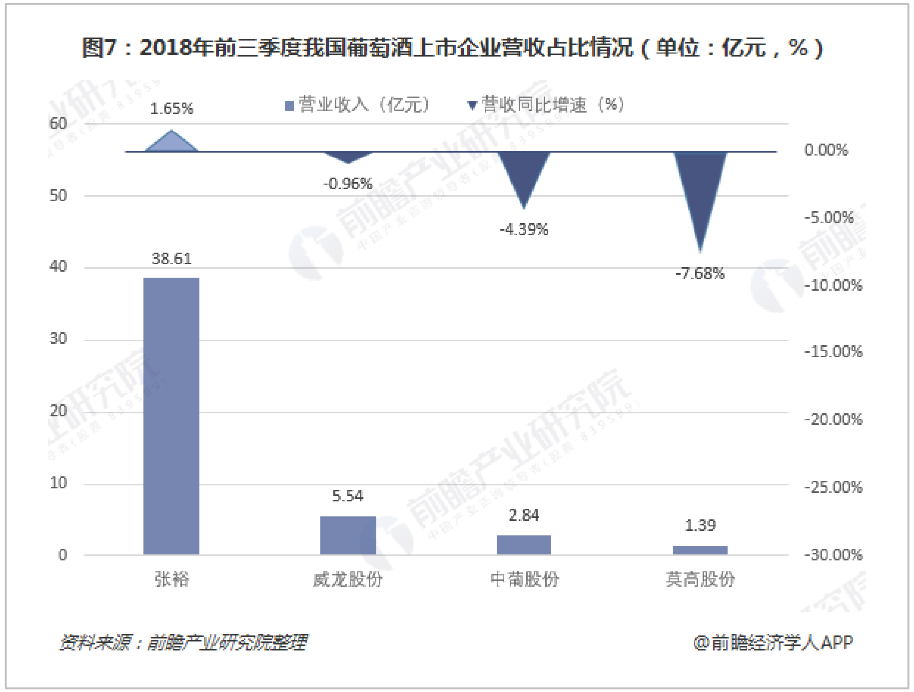
Top 100 Importers vs. Total Market:

- 40% in value
- 29% in volume

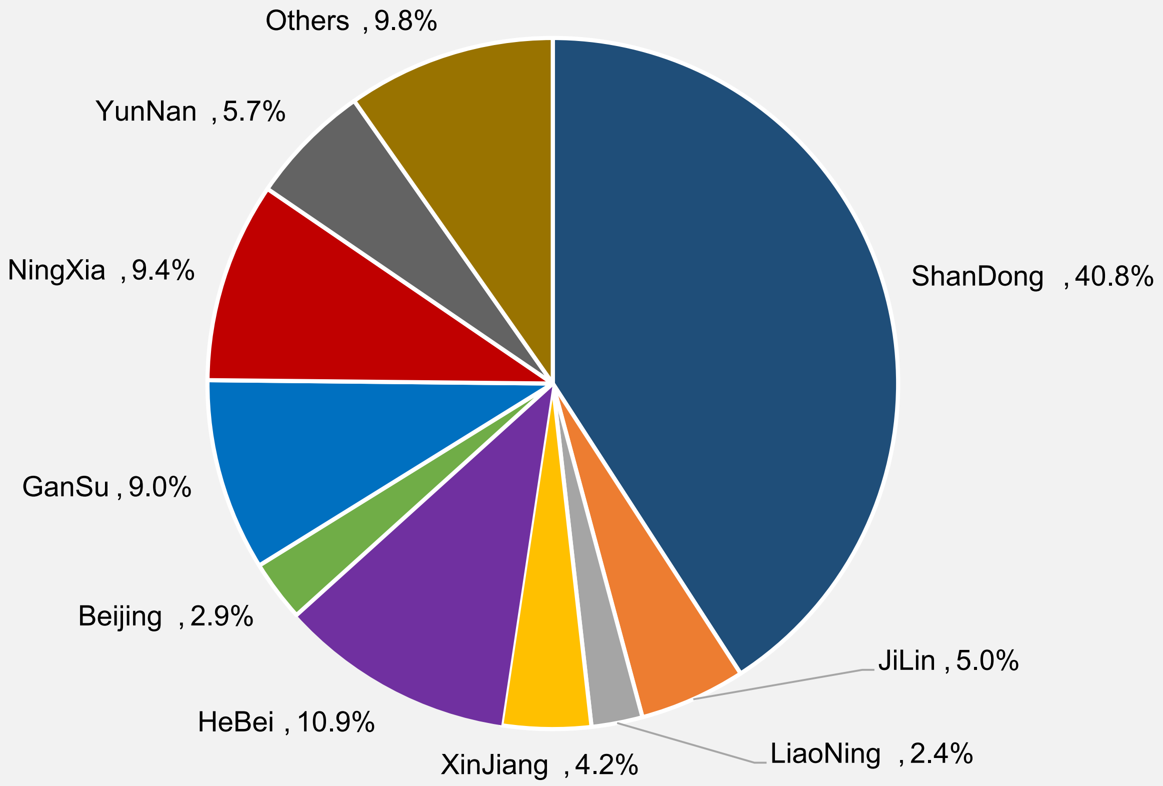
Rank	Importers	English	Business Type	BTL(750)	Value(RMB)	Average Price(RMB)/BTL
1	中粮名庄荟国际酒业有限公司	COFCO	WS Dominated	13,591,034.35	507,065,763.00	37.31
2	圣皮尔精品酒业(上海)有限公司	ASC	ASC	10,976,622.12	490,054,694.00	44.65
3	江苏东帝联合国际贸易有限公司			7,536,630.00	96,085,142.00	12.75
4	上海亮锋物流有限公司	TWE	WS Dominated	6,584,243.01	526,531,543.00	79.97
5	美夏国际贸易(上海)有限公司	SUMMERGATE	ASC	6,377,417.81	157,017,999.00	24.62
6	建发物流(上海)公用型保税仓库			6,072,946.04	246,968,133.00	40.67
7	保乐力加(中国)酒业有限公司	PERNOD RICARD	WS Dominated	5,996,653.04	124,941,893.00	20.84
8	厦门建发国际酒业集团有限公司	C&D WINES	WS Dominated	5,781,128.64	109,873,054.00	19.01
9	烟台张裕先锋国际酒业有限公司	CHANGYU	Pure WS	5,625,600.00	66,639,129.00	11.85
11	北京挖玖电子商务有限公司		EC AND WS	4,813,286.00	65,994,514.00	13.71
14	腾邦仓储(深圳)有限公司			4,218,923.86	1,493,365,122.00	353.97
18	汇泉(上海)洋酒贸易有限公司			3,929,508.91	56,487,141.00	14.38
21	上海桃乐丝葡萄酒贸易有限公司	TORRES	ASC	3,440,734.60	100,859,031.00	29.31
22	娃哈哈商业股份有限公司	WAHAHA		3,288,246.00	34,654,010.00	10.54
26	北京京东世纪信息技术有限公司	JD	EC	2,743,169.20	87,676,347.00	31.96
30	锦江麦德龙现购自运有限公司	METRO	OFF TRADE	2,492,490.79	107,137,448.00	42.98
34	沃尔玛(中国)投资有限公司	WALMART	OFF TRADE	2,224,036.56	101,350,069.00	45.57
58	由西往东(上海)贸易有限公司	EMW	ASC	1,601,568.00	33,342,520.00	20.82
99	捷成饮料(中国)有限公司上海分公司	JEBSON	ASC	1,161,873.00	43,811,830.00	37.71
148	嘉里一酒香(上海)贸易有限公司	KERRY		880,326.97	46,848,338.00	53.22

China Wine Market Major Players – Producers

- Dominated by state-owned wineries
- Significant production reduction since 2013
- Rise of boutique wineries
- Premiumization at big wineries
- Lack of legal definitions



Total Vineyard = 870 K Hectares



249 – Large Wineries;

44 B Rmb – Revenue

20-25 Rmb – average ex-cellar price;

Primary Distribution Channels’ Evolution

- Evolving as China develops & prospers

1970s	1980s	1990s	2000s	2010s	2020s
Diplomatic Pouch	Diplomatic Pouch	All On-trade	On-trade	All Off-trade	E-Commerce
	Foreign Hotel On-trade	Direct	Direct	On-trade	Off-trade
	State-owned Off-trade	State-owned Off-trade	Foreign-owned Off-trade	E-Commerce	On-trade
				Direct	Direct

Volume

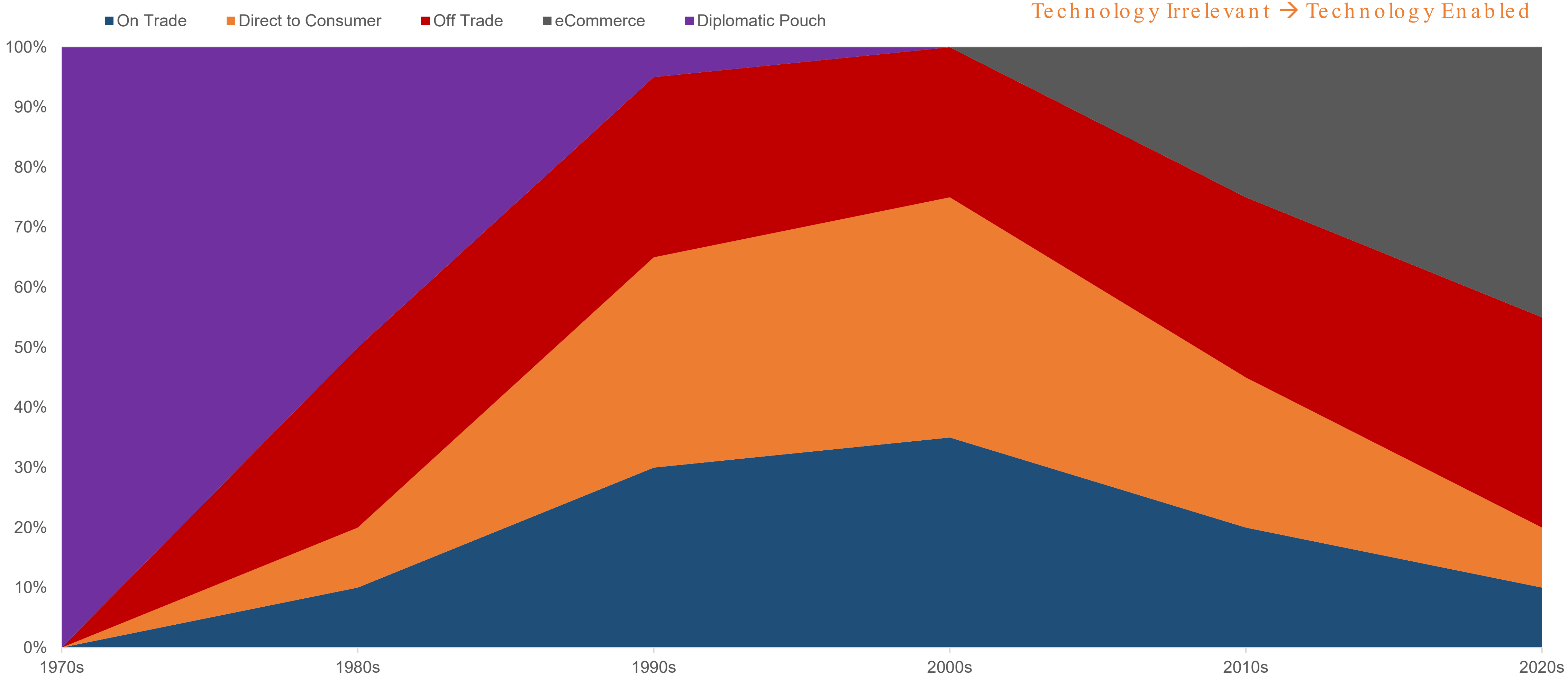
Imported Wines Distribution Channel Evolution 1970s–2020s

Channels Maturing as China Develops

Private Channel → Consumer Driven

Buyer Doesn't Consume → Buyer Consumes

Technology Irrelevant → Technology Enabled



China Distribution- On-line vs. Offline Dynamics

ONLINE

- B2B2C Model
- B2C Model
- D2C Model
- Media / TV Shopping (B2C)

SOCIAL MEDIA to Drive TRAFFIC →
Path to Social E-Commerce

SYNERGIES

- Brand Building
- Content Marketing
- Recruitment (CRM)
- O2O Opportunities

CONFLICTS

- Price Control
- Product Segmentation
- Brand Image
- O2O Conflicts

OFFLINE

On Premise (HORECA)
- Very fragmented
- Quality wines + Service

Off Premise (RETAIL)
- Premium Retail & CVS
- Traditional Super & Hyper
- Top Retailers go direct sourcing and Online

DIRECT SALES (B2C)
- Connoisseur market
- Personal consumption

Distribution Partner & Wholesaler
- Traditional RTM

Off Trade Channel Increasing Importance

- Brand awareness
- In-store promotions
- NKAs are powerful
- Broad coverage
- Premium retail vs. Masstige

Off Trade

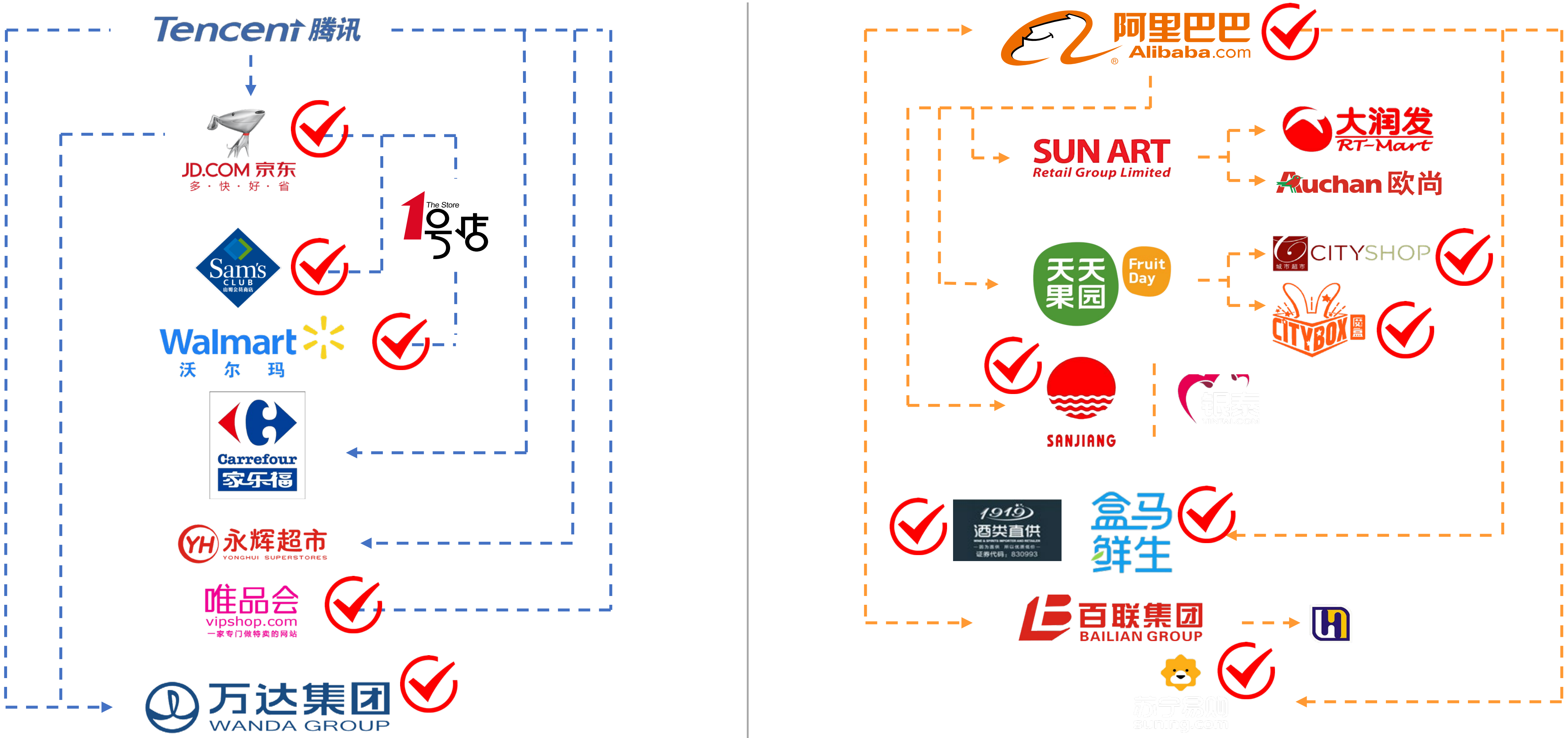
Super / Hyper Cash & Carry	Wine Shop	Department Store	Convenience Store, Others
Carrefour, METRO, Walmart, 世纪联华 CenturyMart	ENOTECA Fine Wine & Beer	友誼商城, 燕莎友誼商城 YOUYI SHOPPING CITY	Sam's Club, Lawson Station, 7-Eleven, FamilyMart

E Commerce Channel Expanding Universe

E Commerce Channel Expanding Universe

M&A Activity & Consolidation

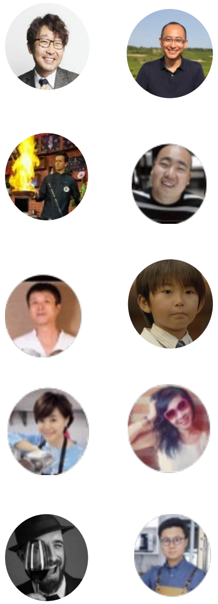
- Increasingly dominated by two ecosystems



Media, KOL and Education

Trade Media

Social Media & KOL



Traditional Media

Education

Distribution & Retail Evolution in China's Wine Market - Summary

Buyer ≠ Consumer	Buyer ≠ Consumer + Buyer = Consumer	Buyer = Consumer
90%+ Foreigners	50-50	90%+ Chinese
Bordeaux – >80%	Bordeaux – 50%	Bordeaux – <40%
RMB 500/bottle	RMB 5000/bottle	RMB 120/bottle
No MW, Diploma, MS Grads	Handful Diploma Grads, MW Candidates, Soms	# 1-2 in WSET Students, MW Candidates, Som Students
Tightly Regulated & Highly Concentrated Chinese SOE Only Importers	Regulated SOE + Foreign Owned Importers – Still Concentrated	Unregulated & Fractured

What is the Future of Wine Consumption in China

Lili Tong

What is the future of wine consumption in China?

- 3rd and 4 th tier cities
- More diversity of styles
- Changing palates
- Back vintages and large formats
- Changing channels
- Less cheating
- More demand on Chinese -made wines

My Opinion of the Future of Argentina Wines in China

Best target market on which to focus is the 1990-2000 Generation

Influence the post 1980s to 1989 Generation

Malbec & Torrontes strong reputation

Food and wine culture

Thank You!

Q & A