



Luxury Lessons from Wine in China

Milano Fashion Global Summit
13 December 2011

Overview



China

Tianjin

Pop: 13m
GDP per person: 62,403RMB
51 minority nationalities, Home of Airbus A320 factory;

Beijing

Pop: 22m
GDP per person: 68,788RMB
Capital city, Home of Forbidden City and Tianánmen

Jiangsu

Pop: 76m
GDP per person: 44,232RMB
1st in China for paid-in foreign capital (more than 88k foreign companies)

Shandong

Pop: 95m
GDP per person: 35,893RMB
Ethnically over 99% Han, center of wine production in China

Zhejiang

Pop: 54m
GDP per person: 44,335RMB
RMB millionaires: 126,000
Major international companies: Esso, Dow, Sumitomo, Samsung

Shanghai

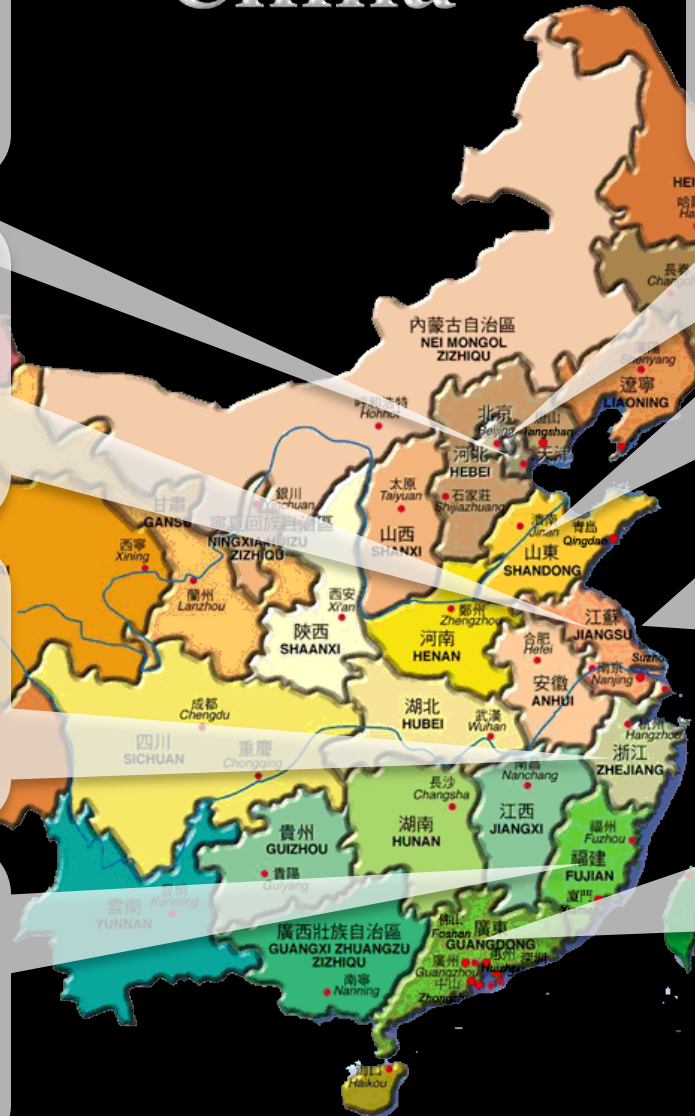
Pop: 19m
GDP per person: 77,564RMB
Busiest container port in the world, Home of 2010 Expo

Fujian

Pop: 36m
GDP per person: 33,051RMB
Very ethnically and linguistically diverse province - also influence from Taiwan

Guangdong

Pop: 104m
GDP per person: 40,748RMB
Most populated province, Home of Shenzhen



China

Xián

Pop: 8.4m
GDP per person: 26,259RMB
New luxury mall: Zhongda International

Chengdu

Pop: 14m
GDP per person: 35,215RMB
Gateway to western regions, Financial and hi-tech center

Chongqing

Pop: 31m
GDP per person: 22,909RMB
Industrial base, western China's largest inland port

Wuhan

Pop: 9.7m
GDP per person: 44,148RMB
New top spot for luxury brands

Shenyang

Pop: 8m
GDP per person: 54,106RMB
Logistics hub for NE Asia - strong in autos, aviation, energy

Qingdao

Pop: 8.7m
GDP per person: 52,895RMB
Large South Korean community

Nanjing

Pop: 8m
GDP per person: 55,290RMB
Modern economy - tech and industry, resurgent financial sector

Hangzhou

Pop: 8.7m
GDP per person: 74,924RMB
Affluent and popular holiday destination

China market profile



Imported bulk wines
10.5% in year 2010
(Year 2009: 7.5%)
15.2 million 9-litre cases in
Year 2010

Imported bottled wines
11.2% in year 2010
(Year 2009: 8.5%)
16.2 million 9-litre cases in
year 2010

Domestic wines
78.3% in year 2010
(Year 2009: 84%)
112.3 million 9-litre cases in
year 2010

Key dates in China's Wine Import Market from 1980 onwards

1980

First Chinese-foreign joint venture
Remy Martin & Tianjin
government to form Dynasty

1997

First wine boom with wine imports
to China reaching US\$10m

1997

Re-exports from Hong Kong to China
reach a peak of US\$61m

2001

China joins WTO

2004

China's wine duty comes down from
65% to 14% for bottled wine and
20% for bulk wine

2005

Second wine boom with imported
wines nearly doubling each year

2006

China surpasses Hong Kong for bottled
wine imports

2008

China signs free trade agreements with
Chile and New Zealand

2009

China becomes sixth largest wine
producer & fifth largest consumer

2010

Castel announces China as its top export
destination, overtaking UK

Wine Import Trends

Category trends

- Growing popularity of Burgundy red, very top wines from Italy and Spain, and cult wines from California and Australia
- Increase in demand for sparkling and rose wines

Consumption trends

- Matching of wine styles and Asian meals still at nascent stage but growing
- Cities like Shanghai more adventurous for whites/non traditional wines

Gifting trends

- Enormous growth for wine as a gift in China
- Creation of special packaging or cuvees to heighten brand visibility

Italian wine trends

- Second biggest growth in China after France as 3rd most important country
- 7.7% of the market for imports (46% France; 27% Australia)

Wine style trends

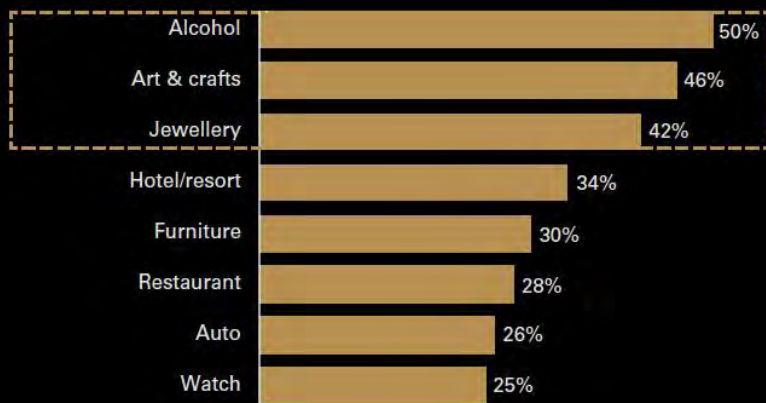
- Reds still dominate but this is changing in affluent coastal cities
- Cabernet Sauvignon continues to be the most popular variety planted in China

Wine pricing trends

- Premium wines are the fastest growing category
- All domestic producers now offer premium wines over RMB 1,000

Wine Key to Luxury Lifestyle

KPMG Luxury experiences in China 2011: Categories where consumers believe local luxury brands will take off (Excerpt)



HURUN Best of the Best Awards 2011: A survey of 401 Mainland Chinese millionaires - Wines and liquors list

Best Luxury Drinks Brand	Louis XIII
Best Luxury Whisky Brand	Royal Salute
Best Ultra Luxury Cognac	Louis XIII
Best X.O Cognac	Rémy Martin X.O
Best Premium Chinese Spirits	Swellfun
Best Chinese Spirits	Moutai
Best Premium Champagne Brand	Dom Pérignon



The cultural dimension

Social values



Individual's identities intertwined with others;
hierarchical society



Obligation towards giving 'face', respect, honouring special
guests, VIPs



Luxury items are as often for others as for self



Meals in a business context function to 'give face' and
'honour' guests



Gifting is very important

The cultural dimension

Lifestyle



City living means
tiny living spaces
across all the
major cities in
Asia

Eating out is
just as
common as
eating at home

Luxury items play an
even more
important role with
a 'going out' vs
staying home
lifestyle



The cultural dimension



Youth of new
Chinese
consumers “Little
Emperors”



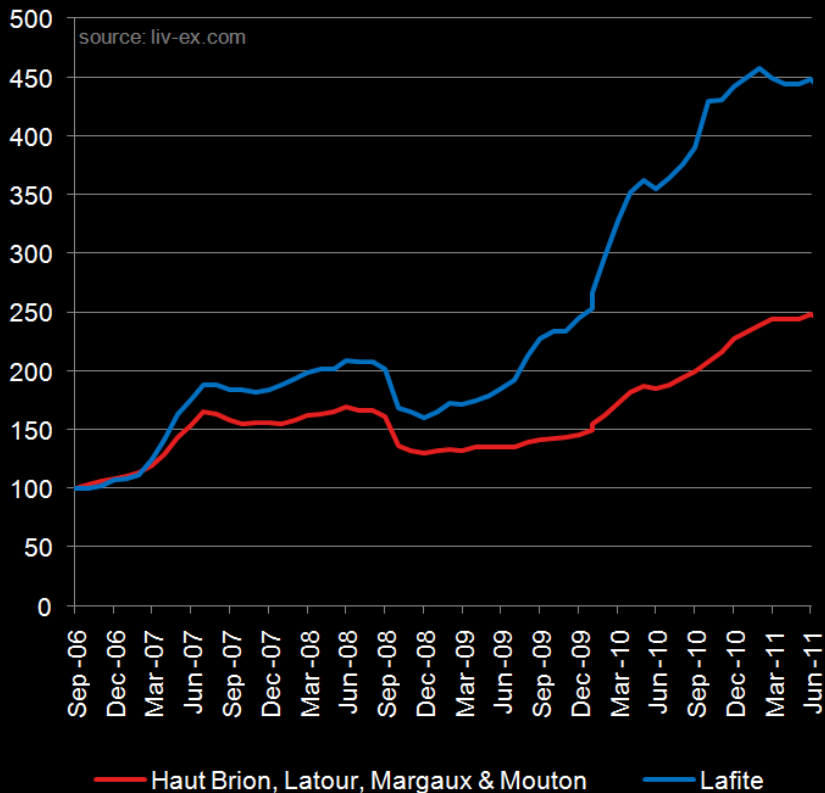
Love of foreign
brands mixed
with pride in
Chinese goods
& services

Urbanization of
population
plus flight from
Tier 1 cities



The Lafite phenomenon

One market effectively pushed up the price of one brand...



Lafite's
localisation
efforts including
JV with CITIC

Bordeaux 1855
classification

Opinion leaders
endorsements

Lafite has luxury
brand appeal &
packaging

Lafite caters to
the dining-out &
face culture

Fine Wine trends



Lafite's dominance has been reduced over the past 6 months but it is still the world's most powerful fine wine brand



China (mostly in modernised coastal cities) and Hong Kong tastes have broadened over the past few years beyond Bordeaux



For most international fine wine brokers and auction houses, Asia now makes up more than 65% of their revenue



Italian wines are becoming more popular mainly through Italian restaurants which enjoy faster expansion rate than French

Takeaways



Premium wines like Lafite cater to the 'going out' lifestyle and offer affordable luxury

Successful companies form important social bonds with the local market with thoughtful packaging and visiting the market frequently

Top wine companies understand the influence and power of opinion leaders, image makers and the elite while selling products that are accessible for upper middle class.



Localising is crucial by establishing joint ventures, making vineyard investments or owning distribution companies



Potential for Italian Wines in China





Grazie mille!

谢谢！

Thank you!