Baseline distribution metrics for Australian wine entering the Chinese market

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The Australian wine industry faces many challenges on several fronts, none more so than to successfully penetrate 'new' markets, including China, to help ensure its long-term sustainability. This article highlights some of the problems unique to the Chinese wine market, and how Australian producers might use the results of a recent survey of Chinese importers and distributors to plot a course to success.

INTRODUCTION

Sales values of Australian wine to its mainstream export markets (UK, US, Canada, etc) have been almost in freefall in recent times, making finding alternative destinations no longer a choice, but an imperative. China has been widely touted as the 'saviour market' of the Australian wine industry. Whereas all indications are that most of the global wine market's growth will occur in China for the next 10 years or more (Euromonitor 2011) this market is not without its unique problems. At, or near the top of, this list is a lack of knowledge, among other things, of distribution issues facing prospective Australian wine exporters. As an integral part of their Global Wine Market course, Master of Wine Business students at The University of Adelaide conducted a survey in 2011 of Chinese wine importers and distributors in collaboration with Wine Australia. The survey examined the nature and main barriers of Australia's access to the Chinese wine market. Some of the most interesting findings are outlined in the following discussion.

There has been more hype about China than any other Australian wine export market. In 2011, exports by value grew at an impressive moving annual total (MAT) of 23%, despite the fact that volume fell by 26%. Australia exported 40.9 million litres of wine to the value of $201.6 million to China in 2011. The average free on board (FOB) value of $4.92 per litre was a massive 93% above the average value per litre ($2.55) of all other Australian wine exports (Wine Australia 2012). Clearly, China has changed from being a low-value niche market for Australian (bulk) wine exports (albeit very important in times of oversupply) to a medium-to-high-level value market. In the process, Australia cemented a 16% volume share of China's import market, is well-placed in second position behind France, and is the leading New World wine exporting country to China (IWSR 2011).

Entering the emerging Chinese market and having continued success is far from straightforward. In 2011, on-trade sales of wine accounted for 48% of total wine sales volume in China. For grape wine, increasing numbers of Western-style, full-service restaurants stimulated the on-trade sales. In 2011, the average wine price was only RMB 30/litre and RMB 82/litre in the off-trade and on-trade, respectively, which is much cheaper than in most developed countries. Consumers are increasingly accepting standard and premium wines that will result in direct price increases, as well as product portfolio restructuring to get rid of low-end wines and focus on developing mid- and high-end wines (Euromonitor 2011). These trends present challenges of a different kind to the Australian wine industry.

Given the high future growth prospects, wine industries and research organisations around the globe are continuously monitoring this market with the greatest amount of interest. The distribution landscape represents an important marketing element that needs to be paid close attention, especially given the dimensions of China's market.

EXECUTING A SURVEY OF WINE IMPORTERS AND DISTRIBUTORS IN CHINA

The main purpose of the survey was to determine the distribution bottlenecks and other barriers to export for Australian wine to China's market. A total of 2015 potential respondents were contacted by email and asked to participate in a web-based survey. They received a reminder e-mail after seven days and, finally, the survey was closed after 14 days. The survey resulted in a final sample size of 87 respondents (±4% response rate).

The companies that participated in the survey were predominantly 100% Chinese privately owned. Few businesses were operating under foreign joint venture or were completely foreign owned. It is important to

Table 1. Number of Australian producers imported from into China in 2011.

Number of Producers	(%)
1-3	79.3
4-8	17.2
9-15	1.7
>15	1.7

Table 2. Perception of main difficulties for wine imports into China.

Category	(%)
Price FOB	40.3
Volume	22.4
Quality	20.9
No difficulties	19.4
Time	17.9
Costs of shipment	14.9
Language	11.9
Other	10.4

Table 3. General import frequency from Australian exporters to China.

Frequency	(%)
Just-in-time (JIT)	52.7
Every quarter	25.5
Every month	14.5
Every half year	7.3

Table 4. Average time required for customs clearance in China.

Time	(%)	Average days
1-10 days	41.5	7.4
11-20 days	24.4	15.2
21-30 days	24.4	28.5
30-90 days	9.8	56.5
Overall Average		19 days

Table 5. Options for obtaining physical possession of wine after customs clearance in China.

Options for obtaining physical possession	(%)
Direct from customs agent at port	69.3
Via a private logistics management business from the port	26.5
Delivered from a store/warehouse to own/other warehouse	20.4
Via a PRC authority from the port	16.3
Direct at the own store/warehouse	12.2

note that the majority of surveyed companies are multi-functional operators, meaning they operate as importer and/or distributor, wholesaler, retailer, agent or other types of businesses. These companies are mostly located in the first-tier cities, such as Beijing or Shanghai, but also in other cities and provinces. This aspect should be considered when interpreting the collected data.

SURVEY FINDINGS

Exporting to China requires a careful market analysis in line with marketing strategies to find a pool of potential distribution partners. Building trusting relationships with a Chinese distribution partner and being able to fill a gap in the partner's portfolio with wines that match the nature of the portfolio, are crucial requirements.

The survey yielded information about the number of different Australian producers from which the Chinese companies import wine. The vast majority (79%) of respondents are importing from only between one to three Australian producers (Table 1). This leads to the deduction that getting into a Chinese wine importer's portfolio is actually quite competitive. It is possible the few companies importing from nine or more Australian producers are either specialised operators and/or distribute their products through a variety of channels. Otherwise, the numbers could suggest that the Chinese companies generally import from only a select few producers who offer a diverse range of products and brands.

Knowledge about important criteria a Chinese partner will consider when negotiating future trading relationships, and the potential difficulties that exist when exporting wine to China can be helpful to reduce perceived risk and strengthen the offer's attractiveness. Table 2 shows when given multi-choice answer options, around 40% of respondents regard the FOB price offered to them as an obstacle to trade. Volume and quality are the second and third highest rated issues, in combination accounting for 43%. Other difficulties include exchange rates, which is an increasing threat to Australian wine imports. Somewhat surprisingly, language problems and freight costs only accounted for 12% and 15%, respectively. The high importance of the price issue ties in with the fact that Chinese importers are striving for higher margins, while also trying to increase the retail (and wholesale) prices of imported wine.

As the market develops further and market participants learn to evaluate and compare product offers and prices, the source price issue will grow in importance. Nearly half of the respondents prefer a FOB price of RMB 20 maximum for the off-trade sector, which represents more or less $A3.95/litre. On the other hand, higher FOB prices are acceptable for the on-trade sector. In summary, it is important to maintain a reasonable price-quality ratio, as these are the most important attributes for Australian wines in China. Given that the quality of Australian wine is generally perceived as consistent and high, price seems to play a very important role in negotiations.

The good news is that, in general, the import process of Australian wine is perceived overall as 'easy' by Chinese importers and distributors. Moreover, 60% plus of the surveyed companies do not require a minimum volume of Australian wine when contracting with them with a view to export. This suggests a relative flexibility of most Chinese partners concerning wine volume limits.

As most Chinese import companies order their wines on a just-in-time (JIT) basis (Table 3), this aspect needs to be carefully considered when planning and organising the shipment.

Another potentially limiting factor for wine exports to China is the time needed for customs clearance after arriving in China. The average time of custom clearance is 19 days (Table 4).

Table 5 shows the pathway by which the importer or distributor receive their wines. The vast majority of nearly 70% claim their wine direct from a customs agent at the port. Private logistics (27%) and having it delivered from another store/warehouse (20%) are the second and third most used options. Only 12% claim their wine from their own warehouse at or near ports.

The ways in which the importers and distributors obtain physical possession of the imported wine brings into play the issue of temperature control facilities and their use at various stages of the export wine distribution chain (Table 6).

Clearly, temperature control during the long overseas voyage is important, as confirmed by 47% of the companies. Once the importers have claimed their wines, temperature control while in their custody before delivery to their customers is almost essential (64%). It is insightful that 20% did not use any temperature control at any step of the wine delivery process.

Furthermore, the application of temperature control seems not to cover the whole process of transport, which includes the storage before clearance. Only 29% indicated they use temperature-controlled storage at port. Storage at port and transport from the importing company to the final customer are the weakest parts of the distribution chain where temperature control can be least assured (Table 6). This issue requires a circumspect approach by Australian exporters.

The most common methods of payment are cash in advance and letter of credit (LC) which account for approximate 35% and 31%, respectively (Table 7). Normally included in an agreement or contract, the payment

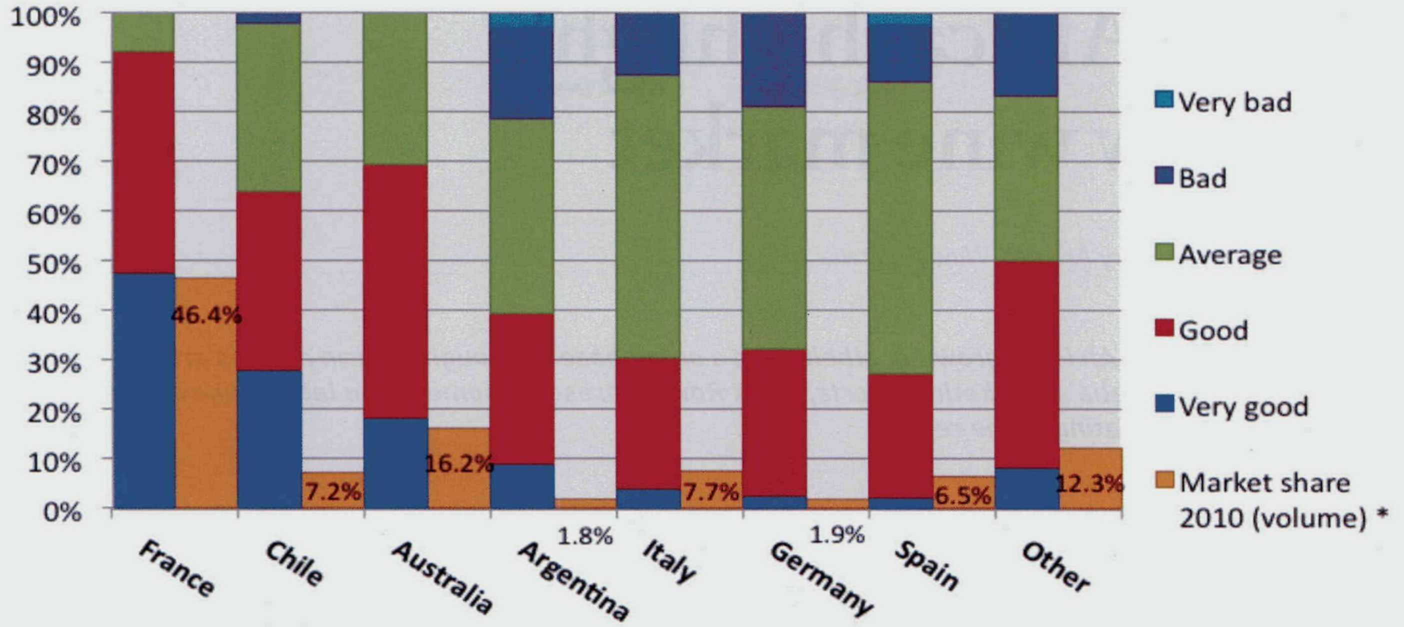

Figure 1. Chinese perception of wines' sales performance by country of origin. (Source: IWSR 2011)

conditions are based on negotiations between both parties. The most preferred methods of cash in advance and LC both require trustworthiness, on the one hand, and reduce risk on the other, especially for the Australian exporter. It can be assumed that the payment of cash in advance is a common way to start an export business with a Chinese partner, whereas other methods are more relevant for well-established relationships over time, which includes long-term contracts.

The average time allowed for the payment of imported wine is 46 days (Table 8). Whereas this is 'only a number', any such comparison with other export markets will highlight whether this is shorter or higher than 'normal'; this also applies to the 19-day customs clearance period (Table 4). Given the fact that most wine sold to Australia's largest export market, the UK, is to large retail chains, such as Tesco, Sainsbury, Marks & Spencer, etc, and that a payment period of 60-90 days is common in this trading environment, one can cautiously deduce that in the case of China, this is on the shorter side, which is another incentive for exporting there. Finally, comparing all exporting countries, France, Chile and Australia play the most important role for Chinese traders. Figure 1 shows how Chinese companies evaluate different countries in relation to their sales in the market. As mentioned, French wine is very dominant. Nearly all participants perceived the sales performance of wine from France as 'good' or 'very good'. Australia and Chile seem to strongly compete with each other, and although Australia has twice the volume market share of Chile, both are perceived to sell well. Despite the fact that Argentina plays a minor role on the Chinese market at this stage, the country's wines apparently sell well and are more positively perceived than those of the traditionally big players, such as Italy and Spain.

Cabernet Sauvignon and Chardonnay are the two most familiar grape varieties to Chinese consumers, and are still the best selling red and white wine. Chinese people are becoming more curious with regard to new flavours, leading to a greater presence of other grape varieties (Euromonitor 2011). This plays right into the hands of Australian wine exporters with an abundance of styles and volume available at different price points, especially when it comes to Cabernet Sauvignon and Chardonnay.

CONCLUSIONS

It is predicted that wine sales growth in China will slow down, but will still continue to post double-digit percentage growth figures in the five-year period 2012-2016. The reason for the growth slowing down will be saturation. Non-grape wine is losing its attractiveness among young consumers (Euromonitor 2011). Whereas all indicators are positive for Australian wine exports to China, a lack of knowledge about China's distribution landscape can quickly lead to an exporter's downfall. Although our survey concentrated on identifying only the most basic of baseline indicators and involved no sophisticated statistical analysis of the collected data, it should be of interest to Australian wine producers contemplating exports to China. It is important that further studies similar to this one, but probing certain aspects more deeply, be executed and made available to the Australian wine industry.

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Table 6. Temperature control at different stages of the delivery in China.

Stages of delivery process	(%)
During storage in your care	63.6
During shipping from overseas to port	47.3
During storage at port	29.1
During transport to your customers	9.1
None	20.0

Table 7. Method of payment-type agreements in Chinese contractual arrangements.

Payment type	(%)
Cash in advance	34.5
Letter of credit	30.9
Bank draft	20.0
Consignment	5.5
Other	9.1

Table 8. Time period of payment agreements in Chinese contractual arrangements.

Time	(%)
1-30 days	42.9
31-60 days	23.2
61-90 days	23.2
91-120 days	10.7
Overall Average	46 days

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