What every wine brand needs to know about on-premise in China

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On-premise channels generate approximately A$37 billion in China (Euromonitor International 2014). On-premise is more accessible for many wineries than traditional retail formats, which require larger volumes and more complicated distribution agreements. In addition, on-premise is often the initial route-to-market for most small and medium-sized Australian wine brands. Acquiring an understanding of the who, what, when, where, why, and how of this lucrative channel can provide Australian producers with a competitive edge.

This article presents key insights from the Australian Grape and Wine Authority (AGWA) funded China Wine Barometer (Wave 3) collected in March/April 2014. The sample (n=1012) is socio-demographically representative in terms of age, gender and income of the upper-middle class urban population aged 18-49 living in Beijing, Shanghai, Guangzhou, Chengdu, Shenyang, Wuhan, Shenzhen, Hangzhou, and Chongqing who drink imported wine at least twice a year.

Who buys wine on-premise

The vast majority (98%+) of people in the socioeconomic demographic of our study buy wine on-premise. They are mostly 30-39 years old (45%) males (67%) with an income of more than RMB10,000 (approximately A$1800) per month (52%), have an academic degree and are English speaking (80%) and reside in Shanghai (37%), Chengdu (12%), Beijing (11%) and Guangzhou (11%).

What wines are bought on-premise?

We asked respondents to recall their last two bottles of wine purchased on-premise to give us an idea of what these consumers are actually buying. The data show that French and Chinese wines are the most purchased countries with a penetration (frequency among our sample of actual purchases) of 46% and 32%, respectively, and a repeat purchase rate of 29% and 32%. The repeat purchase rate indicates the probability that a wine from the same country will be purchased on the second purchase. Australia occupies the third position with a 6% penetration, but it secures a higher than expected repurchase rate (15%), suggesting a good level of satisfaction by its drinkers. However, only 6% of our sample purchased Australian wine on-premise.

Ningxia and Bordeaux are the most purchased (27% and 26%, respectively) and repurchased (24% and 19%) wine regions, with Burgundy in third place with a penetration of 9% and a repurchase rate of 5%. Chinese consumers struggle to remember any other region, with the majority of Australian wine areas, such as Hunter Valley, Barossa Valley, Margaret River, McLaren Vale and Yarra Valley, showing penetration values between 0.4% and 2%.

Cabernet Sauvignon is the undisputed grape variety leader (37% penetration and 32% re-purchase rate), but Merlot (11%) and Cabernet Franc (9%) show higher than expected re-purchase rates, a factor which could be attributed to the 'Bordeaux blend' phenomenon. Hardly any consumers remember choosing Shiraz, while Sauvignon Blanc (6%), Chardonnay (4%) and Riesling (4%) are the three most recalled white grape varieties.

The most typical prices range between RMB150 (A$30) to RMB700 (A$130). However, consumers tend to stick to the same price range within each tier of approximately RMB150 each, suggesting a structure of the market where most consumers buy similarly priced wines for most on-premise purchases.

When are wines bought on-premise?

The frequency of wine consumption is the highest (weekly or more often) at restaurants on average with slightly less regular consumption (one to three times per month) occurring at the other locations for almost half of wine drinkers.

Where are on-premise wines bought?

Restaurants are dominant (26%) followed by bistro/café (17%), pub/bar (15%), street food (13%) and karaoke (13%). At a friend's house (16%) was included to illustrate that Chinese do entertain at home (see Figure 1).

Why are wines bought on-premise?

Wine is consumed for a number of occasions. High-priced wines (RMB 700+) are most likely to be purchased for business occasions, whilst low-priced wine (RMB <250) are dominant for informal occasions (see Figure 2, see page 68).

How are wines chosen on-premise?

Having tried a wine previously is the most important choice driver, followed by food-matching and recommendation by a dining companion. Standard cues like region and grape variety are not as valued

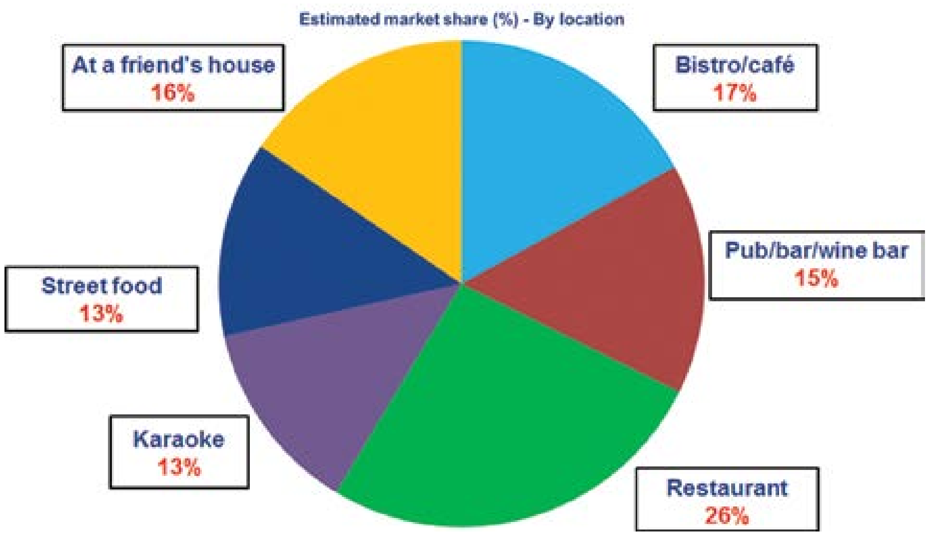

Figure 1. Where wines are bought on-premise – by venue.

Figure 2. Why are wines bought on-premise?

as one might anticipate. Recommendations by the restaurant play a minimal role in wine choice, suggesting that service providers must gain the trust of their customers and raise their level of wine knowledge to have an impact. Wines are mostly chosen individually, but one-third of all wine choices are made by a group.

In conclusion, our results confirm that wine is consumed in restaurants for business occasions at high-price points. However, our data also show the existence of other important venues where wines are consumed for informal occasions: pubs, bars, bistros, cafes, and friend's houses. As we have previously indicated (*Wine & Viticulture Journal*, 29(4):66-67) regular wine consumption is growing across a variety of occasions, so, whilst nurturing the relationship with restaurants, importers and distributors should not forget to pitch their products to the other up-and-coming venues.

In terms of products, it is important to have a Cabernet Sauvignon in a winery's portfolio. Promotional activities should be conducted to increase the awareness of other key Australian grape varieties, such as Shiraz and Pinot Noir as well as Australian wine regions. This includes simple things like highlighting the region and variety on wine lists and menus, tasting for consumers, and on-premise promotions. Increasing mental availability will lead to sub-category growth. Australia has a good reputation in China and these activities can build on that. Producers should not ignore white grape varieties in the Chinese market. The current sales of these varieties are not high, but consumers' awareness is growing. As wine knowledge and experience evolve in China, there will be growth in consumption of these grape varieties too.

Price-wise, there is certainly a space for very high-end wines (RMB700+), but the reassuring news for Australian producers is that 'being expensive' in not a key choice driver. The majority of wines are purchased on-premise between A$30-130. This is certainly a very wide range, but also a range where Australian producers have the wines to make an impact.

Finally, wine is an experiential product, and China is no exception to this rule. Wait staff and the use of electronic devices, such as smartphones, seem to have very little influence on choices, as wines need to be tasted to be remembered and comfortably chosen by consumers. Together with this, the quest for food-wine matching should continue, and should focus not just on pairings with Western cuisine, but also try to meet with local culinary tradition.

For more information, download the China Wine Barometer reports from the Australian Grape and Wine Authority (AGWA) website at http://research.agwa.net.au/resource_categories/consumers

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