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Shanghai's Specialty Retail Wine Shops

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Report Highlights:

Shanghai's specialty retail wine shops are a new phenomenon in Shanghai and are unique alternatives to traditional state-owned tobacco and liquor shops and other retail outlets. These shops have found a niche in the retail market due to their unique marketing strategies, educational events, and store locations. Nearly half of all imported wines entering China arrive through the port of Shanghai, and almost twenty wine shops have opened in the last few years to increase distribution options. From wine tasting parties and definitive flavor labels to wine and food matching seminars, these small specialty shops offer a growing and personalized introduction to imported wine.

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Introduction

This report focuses on Shanghai's specialty wine shops in the emerging grape wine retail sector. These shops are a new phenomenon in Shanghai and are unique alternatives to traditional state-owned tobacco and liquor shops and supermarket and hypermarket retail outlets. Specialty retail wine shops are gaining popularity among locals because of marketing strategies, educational events, and store location. This report also includes a brief review of the overall Shanghai wine market. For a more complete picture of the Shanghai wine market, please see the previously released ATO report [CH6809](#).

Please note: Although grape wine imports are growing, they constitute only a small percentage of wine consumed in China. Imported grape wine accounts for only 2% of volume sales in China, with rice wine and domestic wines dominating (*Euromonitor*). Rice wine is an important tradition in China, dating back more than 2,500 years. However, evidence indicates that imported grape wines are increasingly popular. In this report, all further mentions of "wine" are in reference to grape wine except where noted.

Shanghai's Retail Wine Market: General Overview

Shanghai, the most cosmopolitan metropolis in China, is also the nation's largest market for imported wines. As one of the major ports in the world and the access point of the entire Yangtze River Delta, Shanghai is a magnet for imported wines consumed in the region and beyond. As ex-patriots move to the coastal cities of China, the demand for imported wine has grown rapidly throughout the country. Since 2001, the amount of grape wine imported to China has increased in value by almost 600%; in 2006 alone imports nearly doubled from 2005 (*Global Trade Atlas*). The present popularity of U.S. wines in other booming East Asian markets bodes well for the opportunities presented in the China market as its economy continues to expand.

The value of U.S. wine exports to China increased more than fourfold from \$1.4 million in 2002 to almost \$7 million in 2006. Due to their late entry, U.S. winemakers have yet to gain a significant market share relative to their French and Italian counterparts, or relative to other latecomers such as Australia and Chile. In fact, although imports increased steadily over the past three years, the United States dropped in rank to 6th place among the top wine importers to China, following France, Australia, Chile, Spain, and Italy (see Table 1). The unit price of Chilean and Spanish wine has actually decreased over time, which suggests that more bulk wine may be exported to China compared to previous years (*Euromonitor*).

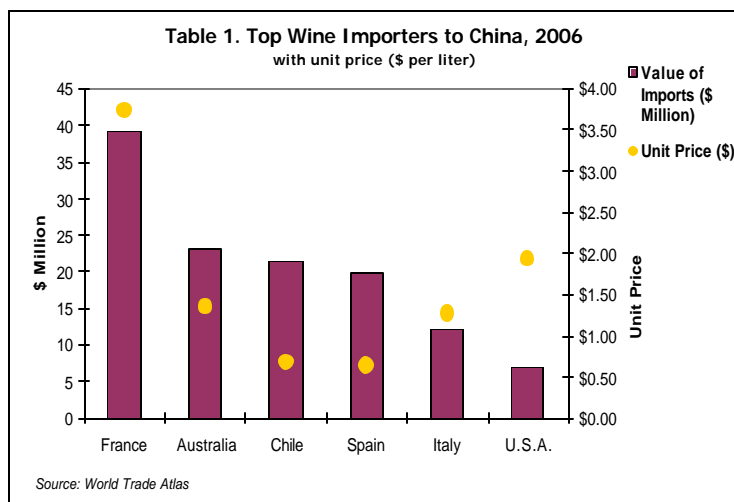
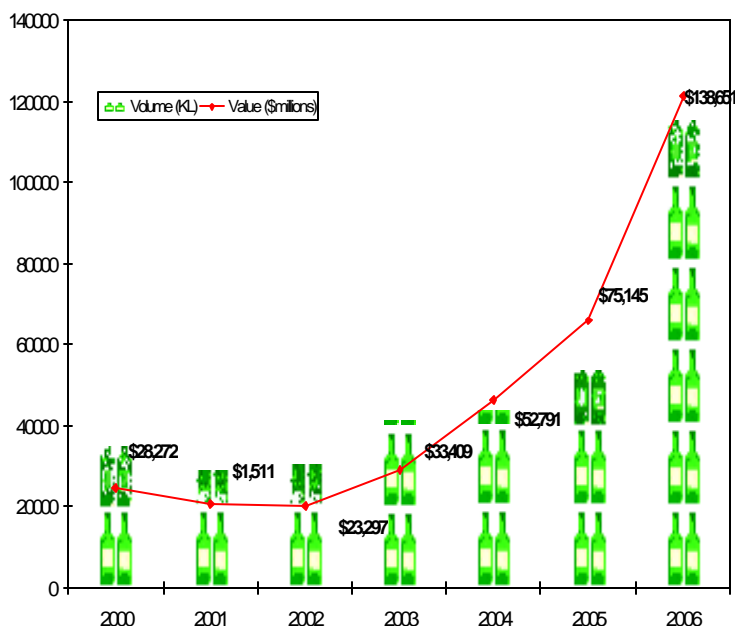


Table 2: Wine Imports to China, All Sources: 2000-2006 (Volume in KL)



Imports to China increased 85% (value) from 2005-2006.

Source: WTA

Nearly half of all imported wines entering China arrive at the port of Shanghai. In 2006, global winemakers shipped \$56.4 million worth of wine to Shanghai, a growth in value of 76.6% from 2005, and nearly three times the value of imports in 2004 (*Shanghai Customs*). Shanghai is home to over forty 5-star hotels and more than 130 top-end Western restaurants, as well as countless wine lounges, members-only wine clubs, specialty stores and hypermarkets. These retailers attract not only foreigners, but also an increasing number of locals who are educated and curious about wine. Imported wines are gaining popularity, and the established, highly-recognized French and Italian wines are now in competition with New World wines, including wines from Australia, Chile, and the U.S.

Drivers of the Shanghai Retail Wine Market

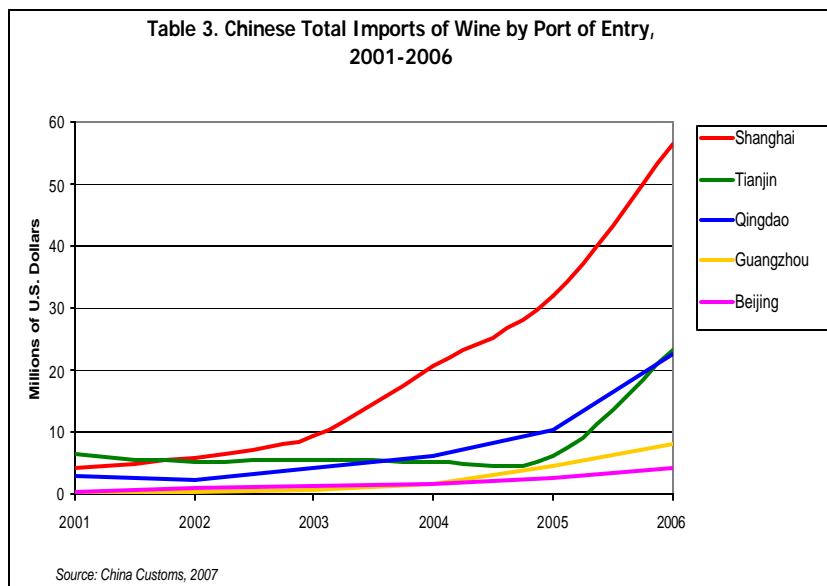
China's Yangtze River Delta, which includes Shanghai and its prosperous satellite cities in Jiangsu Province to the north and Zhejiang Province to the south, is a key consumer

market. Shanghai's 20 million residents have the highest per capita disposable income in China, estimated at more than \$7,000 in 2006. Urban residents in nearby provinces are not far behind: in Jiangsu, the per capita GDP in 2006 was almost \$3,600, compared to the national average of only \$1,970. Zhejiang Province reached \$3,975 in 2006. Shanghai and its neighboring provinces account for almost 30% of the mainland China's GDP (*U.S. Consulate*).

Key trends influencing the Shanghai wine market include:

- Enjoying four times as many top-end Western restaurants than their Beijing counterparts (*Goodwell China*), Shanghainese are more inclined to try new foods and flavors. Specialty wine shops attract ex-patriots as well as young, white collar Chinese locals who are open to new and fresh imported trends. Young Shanghainese are wealthier and spend money more easily than their parents' and grandparents' generations.

Table 3. Chinese Total Imports of Wine by Port of Entry, 2001-2006



Source: China Customs, 2007

- As tourist visas become easier to obtain, the number of local Chinese who have traveled internationally is growing; upon their return to the mainland, Shanghainese are eager to enjoy memorable treats discovered abroad. Wine retailers estimate their consumer base to be half local Chinese and half foreigners (including Taiwanese and Hong Kong-ese).
- Imported wine is believed to be healthy and implies a certain social status and cultural sophistication. It is considered a fashionable alternative to traditional Chinese rice wines and alcohol and a classier choice over imported hard liquor and beer.
- The recent food safety issues and trade tensions between the U.S. and China have alarmed Shanghainese and sparked a new trend in Shanghai as well. Shanghainese purchase foreign products, including food and beverages because of an initial high level of trust in foreign brands. While consumer trends prove difficult to change, patterns seen in Shanghai are similar to those in the rest of the world: as consumers recognize the advantages of wine over hard liquor and beer, they will begin to drink wine more casually: first in bars and restaurants, and then at home and with friends. Consumers are interested in buying products with better long-term value, which is reflected in their desire to purchase high quality imported wines.
- Due in part to low disposable incomes, mid-price, domestic wines still dominate the market. The strongest sales in 2006 were in "mid-priced" wine ranging from 20 RMB to 59.99 RMB (about \$2.67 - \$8) per liter (*Euromonitor*). Thus, wine importers cannot compete on price alone: an inexpensive import still retails at about 60 RMB (about \$8).

Shanghai Wine Sales: Fast Facts

- In 2006, \$56.4 million worth of wine was imported into Shanghai.
- Shanghainese consume approximately 50,000 KL of grape wine annually
- Consumption of grape wine in Shanghai increased by an average of 15% from 2006

Source: *Euromonitor, Global Trade Atlas*

The Venue: Shanghai's Specialty Retail Wine Stores

The intricate web of importers, distributors, wholesalers, aficionados and retailers provides an increased supply of high quality imported wines to Shanghai. Consumers can now find educational events on fine wines, social gatherings promoting imported wines, other locals interested in this new product, and salesmen more than ready to offer suggestions.

Hypermarkets like Carrefour and Metro offer a wide range of imported and domestic wines. These wines are most often distinguished by country of origin. One Carrefour store in Shanghai has five rows of imported wines, ranging in price from 20 RMB to 1500 RMB (about \$2.67-\$200). The wine displays in these hypermarkets are strategically located next to other foreign liquor and are one row away from the imported foods section.

The newest venues to find specialty wines and educational and social events are **specialty wine shops**, which are popping up all over in Shanghai. While state-owned tobacco and liquor stores selling rice wine nourish the rest of China, and large scale retail shops offer wine selections without explanation of taste or quality, independent wine shops with distinctive merchandising and character have become more common in certain sections of Shanghai. Individual importers carefully select exclusive wines to promote in these small stores, and the ambience of each store is refreshingly peaceful.

Table 4. Key Specialty Retail Wine Shops and Sellers in Shanghai			
Retailer	Market Segmentation	Number of Stores in Shanghai	Year Business Started
ASC Fine Wines	Import/Distribute/Retail*	-	1996
Aussino Fine Wines	Import/Retail/Wholesale/ Distribution	1	1996 (1st retail shop in June 2006)
Aux Millesimes	Import/Retail	1	2006
Cheese & Fizz	Import/Retail	3	2002
Enoteca Wine Lounge	Import/Retail/Wholesale	2	2007
Globus Wine	Direct Import, Wholesale/Retail	1	2006
Golden Gate Wines	Import/Wholesale/Retail	-	2006
Jointek	Import/Retail/Wholesale	3	1997
Just Grapes	Retail	3	2007
Le Palais du Vin	Import/Retail/Wholesale	1	2007
Napa Reserve	Retail/Wholesale	1	2007
Summergate	Direct Import, Wholesale*	-	1999
Torres China	Direct Import/On & Off Trade/ Retail/Wholesale *	-	1997
Vins Descombe	Import/Retail/Wholesale	1	2007
Wine Red	Import/Retail	1	2007

Source: ATO Shanghai

*These importers/distributors will take orders and deliver to customers but do not have a physical retail store.

Ownership

The majority of specialty retail wine shops, wine lounges, and boutiques have been in Shanghai for less than two years (a few large-scale importers and distributors have been around since the mid-1990's). Many opened their first shops in the first six months of 2007 and have contracts for second and third retail shops throughout the city. As Shanghai's retail wine market develops, some specialty wine shops are being opened by importers who also profit from wholesale sales to restaurants, hotels and clubs.

Specialty wine shops are often run by importers selling an exclusive selection of wine. For example, the specialty retail wine shop **Napa Reserves** sells Californian wines from small wineries at premium prices. With a single supply of family-owned wineries, this shop caters to the wealthy upper-class local Chinese and expatriates who are aware of California's distinguished vineyards. According to Ellen Gu, store manager at Napa Reserve, "Chinese are hesitant to pick up a bottle of American wine simply because they do not recognize the U.S. as a culture of wine and food." Due in part to franchise giants like KFC and McDonalds, in China the U.S. is still largely associated with fast food. However, as trends change in the U.S., its exports to Shanghai will grow and develop a stronger identity.

Merchandising

Specialty retail wine shops feature a variety of imported wines shelved on hardwood racks. Typically, the storefront is glass, allowing potential buyers the chance to glimpse into the shop to see the wine selection. Most wine shops have warm lighting and low ceilings, providing a “cozier” environment than larger retailers. In many stores, soft music is playing as well. With a few exceptions, the wine is categorized as follows: first by country of origin, then variety, and finally by price. Gift displays are found at the front of the stores. These displays typically hold a collection of premium red wines and gift boxes.

Shanghainese most often purchase wine as an elegant and tasteful gift to share or for others to enjoy. In China, the presentation of gifts is extremely important. Larger gift boxes may include 2 bottles of wine and a corkscrew or wineglass, all resting on a “satiny pillow” (a plastic mold covered with attractive fabric).



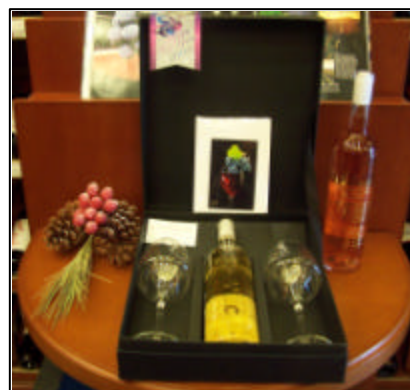
Jointek Fine Wines offers an attractive gift package popular among Shanghainese.

Wine conveys the same affection and respect as a gift item as it does at a banquet, to be given on special occasions such as Chinese New Year or a housewarming party. Gift packaging in the form of a sturdy, ornate wooden display box is standard.

The concept of “face” is ingrained in the Chinese culture, and is well-acknowledged in Shanghai. As incomes increase and lifestyles become more luxurious, there is a common desire to manifest one’s success through material possessions. Wine represents the “good life”, and through online, print, and televised advertisements, it has become a sign of success. It is one symbol by which Shanghainese can show publicly how much “kuai” (money) they

possess. Shanghai wine importers and retailers are aware of the significance of “face”, and market their wine and wine products accordingly.

Red wine is overwhelmingly more popular than white wine in Shanghai. The color red is associated with good fortune and happiness. Also, the tannins in red wine allegedly evoke a taste similar to that of tea, which is the most commonly consumed beverage in China. French wines are most popular because they are most well-known among Shanghainese. However, U.S. wines still compete with unique assortments and gift ideas. One retail shop features a Californian wine containing dazzling flakes of real gold floating in rose or white wine. Gold is auspicious in China, and this particular wine, which is marketed as a gift item with two wine glasses in a well-built box, is a top seller among premium wines.



The premium Hundred Acre wines with gold flakes are top U.S. sellers.

Marketing for a New Culture: Education

The most important measure taken to help fuel interest and growth in this market is education. Wine shop owners and wine importers recognize the influx of imported wines entering Shanghai and the distinguishable and growing wine culture here, and have utilized

creative means of educating local Chinese on the benefits and advantages of wine. Entrepreneurial shop owners and managers recognize that, while imported wines are popular because they are new, trendy, fashionable, status symbols, they are still foreign to most Chinese.

Shanghai's wine shops spread the culture of imported wine through multi-media advertisements. During a drive down a busy Shanghai street, video billboards flash images of a happy couple smiling over a glass of red wine. Entertainment magazines like *City Weekend* publish wine tasting events and deals in Chinese and English. Chinese websites cover wine promotions too, such as California Wine Institute events with detailed explanations.



Just Grapes offers an innovative labeling system.

Just Grapes, a company less than one year old, successfully strategizes its viticultural venture with a unique educational approach. Its retail display strategy is the only one of its kind in Shanghai. Rather than distinguish wines by country of origin, wines are separated by flavors and more detailed sub-categories: fresh versus rich; oaky or spicy, grassy and nutty or more toasty or fruity. This helps Shanghainese discover at first taste the essence of different wines. Upon entering the wine store and lounge, pine wood wine racks

are stacked with wines from the Old and New Worlds, but one hardly pays attention to the country on the label, as there are colorful stickers providing quick descriptions of each wine. This unique labeling system allows easy access for the unseasoned Chinese consumer, and allows better market access for country-competitive wines as well.

Another means of educating the masses is through wine tasting. Some small shops offer potential buyers a small glass of wine upon entering the store. With a brief introduction of the wine, including flavors, country/region of origin, and year harvested, shoppers are able to match words with taste. A salesman remarked that, "After trying the wine and understanding its life, approximately 80% to 90% of shoppers will feel confident enough to buy a bottle of wine." He added that Chinese

tend to buy less than foreigners and are more enthusiastic to taste samples, but that this service helps to familiarize Shanghainese with imported wine.



Just Grapes' clear descriptions welcome first-time wine buyers.

At one local shop, a wine tasting and luncheon is held monthly. Lasting two hours, approximately 25-30 guests attend an educational wine tasting and luncheon. The group is kept small (target number of about 20 people) because a small-scale event is more effective, and breeds less of a "party" atmosphere. During the lunch, an "ambassador of wine" will give a presentation on the wine served at the lunch. The group is usually comprised of half Chinese and half ex-pats. The wine-tasting event is in cooperation with different wine suppliers in Shanghai: the wine lounge provides the food, venue and supplies, and the wine distributor provides the wine and ambassador.

Another store has done a great deal of educational and promotional work for Californian wines. Sales representatives explain in Chinese and English the unique soil quality found in Napa Valley, with volcanic residue that creates an ideal soil for vineyards. Although

Shanghai's demand for U.S. wines is still developing, many retailers and importers agree that U.S. wines will sell better in Shanghai if greater efforts are made to provide mid-range priced wines with a brand or flavor advantage over Old World and Australian wines and if U.S. promotional programs increase.

Location

When marketing such a new product that is indeed foreign to the consumer, store location is key. Without brand or product recognition, a new product purchased in a familiar setting provides a legitimizing factor to local consumers. The shops in Shanghai are concentrated in a small area: there are as many as four wine boutiques on Weihai Road, an ebullient shopping street lined with fashionable clothing stores, foreign restaurants, and high end imported goods. Another locale is Dagu Road, where three shops are in close proximity to one another. The reason for these concentrated selling areas is simple. Chinese are unlikely to initially trust independent wine shops. Since local consumers are still relatively unfamiliar with foreign wines, they are hesitant to buy a bottle because even if it is labeled "premium", they will not know if it is a high quality product or not. It is difficult for an untrained palate to differentiate a bad bottle of wine from a good bottle. For a consumer who knows little about wine, a young wine shop harbors the buyer's fear that he/she is not getting the "real deal" of high quality wine.

The fear of being cheated is a strong sentiment that inhibits specialty wine shops from gaining the trust of local consumers. Thus, Chinese consumers who are initially interested in wine may first buy a bottle or two in a more "comfortable" setting such as a department store. International department stores or retailers like Isetan, Carrefour, and Sogo, have separate displays for wine, which elicit high interest among consumers who are used to the department store layout. Even upscale supermarkets like City Shop provide a safe ground for consumers to test new products. Also, these types of shops carry brands that are often recognized and advertised in Shanghai as well.



Napa Reserves specializes in exclusive Californian wines

Still, small retail shops bring awareness and local recognition to the product, and many shops focus on educating a new culture as well as selling their wines in the wholesale market.

Competitive Situation

Specialty wine shop retailers have a distinct advantage over larger retail shops in their ability to access consumers through small-scale, personalized social and educational events. Also, the Shanghainese' adaptation to Starbucks coffee shops is a trend similar to that anticipated to develop for specialty retail wine shops. Market researchers speculate that the Shanghainese' ability to enjoy an unfamiliar drink like coffee in a cafe setting could be a prelude to the growing popularity of specialty wine shops.

Although market approaches vary widely, most importers, distributors and retailers alike agree on one thing: the Shanghai market is fiercely competitive. For starters, wine license

restrictions have decreased and importing is becoming easier. The consumption tax dropped from 14% to 10% in 2005 (*Euromonitor*). (For more information on total import tax on U.S. wines, please see Appendix B.) One importer described the overflow of wine imports in 1996, when one million cases of wine were imported into Shanghai, only to sit in warehouses and eventually be thrown out. The supply was readily available, but the demand for imported wine was still quite weak. Imports did not reach the same volume again until 2005. While shipments are increasing and filling the supply channel, the demand for imports is still growing.

In Shanghai, imported wines account for a larger market share than the rest of China, but they are still not as popular as domestic wines. In fact, in recent years there has been an influx of premium local wines. A few wines from Xinjiang, Shanxi and Henan are retailing at 300 RMB and selling in hotels and restaurants for as much as 800 RMB. The quality and brand recognition of local wines are increasing. Also, Chinese brands recognize that packaging is important to Chinese, since a large amount of wine is bought as gifts. Nestled in a red satin cloth inside a hardwood box, domestic wines with intricate, sophisticated labels are extremely popular with local Chinese.

However, the rise in local production has actually helped the imported wine market. With local brands selling at such high prices, they have created a price-acceptable category that is higher than many believed Chinese would pay for wine. When Chinese jump to this ultra-premium price category of domestic wines, they do not have to pay much more for imported premium wine.

Of course, certain shops cater to higher-end consumers, with bottles starting at 150 RMB, but part of the intrigue of this market is that it is popular among all income levels. A step into Lianhua, a common Chinese supermarket, reveals a limited number of imported red wines on display front and center of the store. Labels of Chinese Shaanxi and Xinjiang wines are becoming classier, resembling French Bordeaux labels down to the Chinese "chateau vineyard".

Australian wine is becoming more popular, too, due both to the country's close proximity to China and the less expensive, wide selection available. Many overseas Chinese travel to or study in Australia, and witness firsthand that wine is a large part of the Australian culture.

Retail Wine Forecast

While competition in Shanghai's wine retail market is strong, the focus of most wine importers is simply to expand the market in general, rather than emphasize a particular brand. As general demand and interest in imported wine grows, wine importers will be better able to market specific brands and varieties of wine. Education remains a strong focus of Shanghai specialty retail wine stores, and will continue to be until Shanghainese fully understand imported wines. In order for new wine products to succeed in the Shanghai market, exporters should concentrate on:

- Competitive pricing, high quality, and a unique brand image
- Launching a product in proper sales channel
- Targeting appropriate customers
- Marketing events and communication
- Sales strategy and promotion
- Distinctive advertising compared to competitors
- Great before & after sales services

Since the aim of specialty retail shop owners and importers is to expand the wine market, U.S. vintners interested in entering the Shanghai market should consider specialty retail wine shops as potential venues to market and sell their products. Large importers like ASC and Torres are available as resources for the retail market as well. Shanghai's specialty retail wine shops are still developing an identity, and may best be used by new importers to access the retail market after their presence has grown and become more widely recognized in Shanghai.

Appendix A: List of Required Product Information on Chinese Labels

- A. Name/Brand
- B. Ingredients
- C. Net volume (ml)
- D. Alcohol content (%)
- E. Production place
- F. Production date (yy/mm/dd)
- G. Packer/distributor/importer (Name and address)
- H. Country of origin
- I. Quality guarantee or storage period (yy/mm/dd)
- J. Sugar content (g/L)

Source: *China Administration of Quality Supervision, Inspection, and Quarantine, 2007*

Appendix B: Formula to Determine Import Tax on U.S. Wine

Total import taxes for bulk and bottled wine factor in an import tax, consumption tax, and VAT:

Import tax rate (ITR)	
Bulk wine	20%
Bottled wine	14%
Consumption tax rate (CTR)	10%
VAT rate	17%

Rather than being the simple sum of these percentages, however, the total import tax is calculated using a compound formula. Using bottled wine for an example, the compound rate is calculated as follows:

$$\text{Total import tax} = \frac{\text{ITR (0.14)} + \text{CTR (0.10)} + \text{VAT rate (0.17)} + (\text{ITR (0.14)} \times \text{VAT rate (0.17)})}{1 - \text{CTR (0.10)}}$$

Simplifying,

$$\text{Total import tax} = \frac{0.41 + 0.0238}{0.9} = \frac{0.4338}{0.9} = 0.482 = \mathbf{48.20\%}$$

Source: *2006 Customs Import and Export Tariff of the People's Republic of China*

We can calculate that the total import tax on bottled wine is 48.2 percent and on bulk wine is 56 percent.