



Shanghai More likely to take to SA wines than Beijing

SA WINES IN CHINA

Sip before you swallow

The Chinese wine market is opening up. But SA wine producers need to move cautiously

Are SA producers missing the wine world's next gold rush? The Chinese market exhibits Wild West characteristics with intense territorial behaviour, sharply vertical growth, few clear laws, and fortunes being made — and threatened — at an alarming rate.

Reliable statistics are elusive, but all indicators suggest soaring consumption. Access Asia, an economic database, reported 30%-50% growth in imported bottled wine during the past three years. China's new millionaires and burgeoning middle class are keen to flaunt their newfound purchasing power with a wine habit and the latest Prada shoes.

Mike Ratcliffe, MD of Warwick Wine Estate, is one local producer to have embraced the opportunity. He started by distributing Warwick in China four years

ago through import firm East Meets West. Ratcliffe's other wine enterprise, Vilafonte, launched in Shanghai in 2004.

Partnerships with upmarket establishments in the city such as the Mission Hills Golf Club, Crown Wine Cellars and exclusive restaurants have cemented the wine brand's positioning as SA's top luxury brand in Shanghai.

Vilafonte entered China knowing that the marketing costs were high. They run at more than 20% of the retail price of the wine. Ratcliffe views this rate of investment as the cost of building a compelling luxury proposition.

"A small segment of the population is flush with cash, but they are not randomly spending money. The Chinese have quickly developed a level of discrimination and sophistication which drives their purchasing habits," Ratcliffe says.

SA stalwarts such as Meerlust and Nederburg have dipped their toe in the China market through a representative deal with China's leading importer, ASC Fine Wines. With 480 full-time staff ASC has the infrastructure and expertise to help brands navigate this risky territory.

"There are few brands that fill niches in Chinese restaurant lists, and the problems with new African brands are

formidable. They include logistics and lack of government support," says Marc-Antoine Jolly, ASC's brand manager.

The French trade association arrived in China 30 years ago and the Australians started investing in China more than 10 years ago when the market was still small. Both countries count on knowledgeable staff on the ground to exploit their first-mover advantage.

Wines of SA (Wosa) market manager Asia & India Michaela Stander just returned from her first business trip to China. "SA needs to be innovative to make an impact. We have a fantastic opportunity to create a compelling image for SA wine because we have a completely clean slate," she says.

Wosa plans to set up a working group to enable SA producers to create a group strategy and share costs. Stander estimates that it could take up to 10 years before Wosa can commit to a widespread marketing campaign in China.

"South Africans and Australians can't push regionality over prestige. France has them beat. In the midmarket, SA producers can compete on value for money," Jolly suggests. He compliments SA liquor group Distell on its entry strategy. "They priced competitively and invested in the

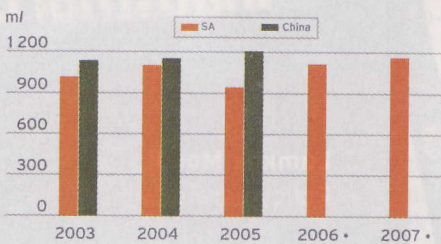
WINING THE CHINESE

SA wine exports to China

litres (000)



Wine production



* 2008: Jan-Apr

* Chinese stats not available

SOURCE: DEPARTMENT OF AGRICULTURE, OIU

promotion package deals that the market wants. The trade [restaurants, hotels, clubs] are looking for training, glassware and gifts to list new wines. Beijing is much more deal-driven than status-conscious Shanghai," he says.

With only 2% of waiters in Beijing having direct experience of wine, trade education is essential. With foreign wine carrying a 50% tax burden and priced at nearly 10 times the cost of a beer at top restaurants, Chinese consumers are understandably risk averse to ordering new brands. But waiters can sway consumer choice — as can attractive pricing.

Importers handling SA brands report positive reactions from the media, especially to tastings dedicated to SA varieties such as pinotage and chenin blanc.

The boom in Chinese wine consumption is also creating opportunities for new SA players. Martyn Mills formed MCM Wines China in his Constantia home office to cater to the huge demand for easy-drinking reds after attending one of China's biggest wine shows in 2004. He worked with well-known Stellenbosch and Robertson producers to blend a pinotage-heavy wine that won a silver medal at the London Wine & Spirits International Competition.

To leverage the publicity from his award, he created a Chinese and English language website to collect orders. Last

year, he received an order for a full containerload of his MCM brand, only for the deal to fall through at the last minute. Mills was forced to start the courtship process all over again.

Mills has also tapped into Wosa's match-making capabilities. He shipped them his MCM wines to be poured at the department of trade & industry booth during Shanghai's Sial '08 trade fair.

"Doing business in China requires extraordinary patience. To really succeed in China, SA producers need a permanent workforce and stable brand presence there," he says.

Wosa's Stander tells a cautionary tale about the downside of jumping at new business opportunities in China. She says several SA winemakers received orders from importers that alleged they were new to the wine trade.

The SA producers were invited to travel to China to meet executives to conclude lucrative export deals and spend a fortune on banquets and other activities. The South Africans returned home to learn that the phones and e-mails of the "importer" had been disconnected. Businesses in several industries have fallen victim to similar scams.

Stander outlines another scheme in which the Chinese importer agrees to place the wine on retail shelves and in restaurants if the SA party pays commissions in advance. She encourages SA companies planning to do business in China to build long-term relationships to ensure mutual trust.

She says Chinese importers have also begun to contact Wosa for assurance about potential SA partners' ability to meet high volume orders.

"If China seems like the solution to all your problems, I suggest you read the fine print," Stander warns. "It has very small per capita consumption, big import taxes, logistics are a nightmare, and local producers are increasingly able to deliver wine at all price and quality points."

"The opportunity to abuse Western ignorance seems to be a lucrative game," Philip Jonker of Weltevrede says. "All business hinges on trust, whether there are contracts in place or not."

"A sensible approach to the market with a long-term view is key," Ratcliffe suggests. But he's encouraged by the recent scrapping of wine import duties in Hong Kong. "It was one of the most significant events of 2008 and may just set a precedent for mainland China."

As consumer behaviour changes in China it is fast becoming a microcosm of the global wine world. Big international players, lured by the huge potential, are descending on the country.

The competition has intensified more quickly than widespread profitability. But the lure of a big payout keeps a steady flow of global wine producers busy prospecting.

Margaret O'Conner



Mike Ratcliffe
High start-up costs