

Rich vintage

Co-published article

Chinese consumers may have tightened their purse strings, but they haven't fallen out of love with wine

While all indications suggest that China's economic strength may allow it to skirt the most acute pains of the current financial crisis, many business owners are re-examining their expectations for growth and assessing their ability to weather the storm. Those working in China's burgeoning wine industry are no exception.

Despite the gloom and doom forecast by many market prognosticators, the long-term fundamentals for China's wine market remain strong. Summergate believes it is well positioned both to serve consumers in China and assist winemakers looking to establish a market presence.

While it is true that wine sales to hotels and restaurants have begun to slow, this has been offset to some extent by rising sales in supermarkets and other retail points. This shift in buying patterns suggests that consumers have lost their appetite for drinking in restaurants and bars, but not for wine itself.

"It appears that Chinese consumers still believe that wine is an 'affordable luxury,' worth buying in these times. But they are also trading down and looking for more value-for-money wines," said Brendan O'Toole, managing partner of Summergate.

Underlying strength

Wine consumption is closely linked to per capita GDP growth and, despite the current economic problems, China has several long-term factors working in its favor: A rising middle class, ongoing wealth creation, and a rapidly evolving consumer culture. As their financial lot improves, Chinese consumers will desire the trappings of a global, urbane lifestyle, and imported wines remain a potent symbol of those aspirations.

In 1995, the import market for still, bottled wines was a mere 41,500 units. Five years later, imports crossed the million-bottle mark and in 2007, they stood at 6.4 million. Imports are still concentrated by country of origin with France as the leader, but New World wines, from Australia, Chile and the US have made significant inroads into the China market. This suggests consumers are developing a taste for wines from across the globe that suit their palate.

Summergate has witnessed this growth first-hand. The company, which was founded nearly a decade ago, has grown into one of the country's leading distributors and marketers of wines. It didn't reach this point by watching from the sidelines. From its inception, Summergate has sought to educate the market about wine through a variety of methods, from writing articles for local media to hosting its popular wine tastings.

These regular events are targeted not only at end-consumers but also with the waiters, bartenders, and other members of the service staff at restaurants and hotels. The aim is to provide hospitality industry professionals with the tools to better serve their own customers.

Summergate also acts as a critical link to China for overseas suppliers, keeping them informed with the latest developments in the market so that they may grow their brand on the mainland.

A balanced portfolio

Given the current economic climate, the company expects consumers to gravitate toward more value-for-money wines. Indeed, low-cost wines priced at RMB150 (US\$22) or below are seeing a surge in sales growth. While it is important to grow these value labels in order to meet customers' needs in the short-term, Summergate believes that its future lies in providing a range of wines suited for all budgets. Today, the company represents more than 60 wineries from 12 countries, including DBR Lafite, Concha y Toro, Antinori, Ridge, Catena, Yalumba and d'Arenberg.

"Making wine, as well as importing and distributing wine, is all about long-term decisions and branding," said Ian Ford, managing partner of Summergate. "The upmarket strategy that so many winemakers have embraced is taking a short-term hit, but will benefit these brands in the long term and cement their presence in China."

The Lafite story

One need look no further than the continued success of DBR Lafite in China for proof that an upmarket strategy can yield results. DBR Lafite has become China's strongest wine brand by targeting consumers who aspire to a more cosmopolitan, sophisticated lifestyle. Consequently, the brand has seen phenomenal growth this year, despite its price.

"We have been working hard strategically in developing ways we can capitalize on the current situation while keeping our eye on the long-term brand position in China," Ford said.

Summergate is able to do this by leveraging its deep level of expertise and knowledge of the China wine market. It can also count on strong relationships with its wine suppliers, and is viewed as a reputable and honest player. The numbers appear to confirm this underlying faith in Summergate's brand: While others may be struggling, Summergate has recorded its highest sales in history over the past five months.

The company currently operates in five cities in China and will be establishing a presence in Hong Kong this summer. In addition, the Summergate owners have invested separately in a retail entity led by Marcus Ford-one of the visionaries behind Shanghai's famous M on the Bund restaurant-that will partner with Summergate on retail sales. The new venture is set to launch in Shanghai, but will expand nationwide.

Put together, these efforts represent Summergate's goal to consolidate its long-term position in the China market and help nurture new generations of wine lovers.