China Wine Barometer – Wave 2

INTERIM REPORT to
GRAPE AND WINE RESEARCH & DEVELOPMENT CORPORATION

Project Number: **USA-1202**

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Research Organisation: **Ehrenberg-Bass Institute for Marketing Science – UniSA**

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2. The quintessential bottle of wine in the mind of a Chinese consumer is a French cabernet sauvignon from Bordeaux priced below ~ 45 AUD in retail
3. Weekly consumption of wine by Chinese most prevalent for relaxing and informal occasions with frequency dropping for hosting guests and celebrations
4. Relaxing and informal consumption occasions trend towards lower-price wine with bottle spend rising when hosting guests and celebrations
5. Main retail purchase drivers are quality indicators and grape variety with vintage, country of origin, and recommendations also playing an important role in the decision process

Executive summary (2/2)

6. Leading wine retail channels are hypermarkets, specialty wine stores and online wine retailers, however penetration is above 50% for all but one channel
7. Similar awareness levels among brick and mortar retailers, but higher visitation and penetration for hypermarkets (i.e. *Walmart* and *Carrefour*)
8. Chinese giant Alibaba's *Tmall.com* and *Taobao.com* along with US venture-capital-backed *Yesmywine.com* lead the online sector with higher awareness and conversion
9. Brick & mortars can be classified into 2 distinct store experiences, however staff interaction is the key differentiator for local store appreciation
10. Online retailers can be classified into 2 distinct virtual shopping experiences with *Tmall.com* and *M1ntcellars.com* standing out with recognition for online security and brand image

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Research overview

This research

This report presents the findings of the second wave of the GWRDC funded project "**The China Wine Barometer (CWB): A look into the future**".

This research extends and compares Wine Intelligence's **Vinitrac®** for China with a survey developed by the Ehrenberg Bass Institute for Marketing Science to track the preferences, purchases, and usage occasions of Chinese wine consumers in a range of first- and second-tier cities twice a year over a three-year period.

This wave of the **CWB** focuses on the awareness, attitudes, and perceptions Chinese consumers have about wine and their specific attitudes and behaviours in the off-premise and online sector. The data was collected for both **Vinitrac®** and the **CWB** in October 2013.

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Who we surveyed (n=966)

The sample obtained 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, and Wuhan who drink imported wine at least twice a year.

The respondents are characterised as follows:

- **Cities**: 43% Shanghai, 19% Guangzhou, 15% Beijing
- **Gender**: Male 67% – Female 33%
- **Age:** 62% are 30-44
- **Income**: 50% > RMB 10,000 (AUD 1500) a month; 85% > RMB 6,000 (AUD 1000) a month
- **Academic degree** & **English speaking:** 80%

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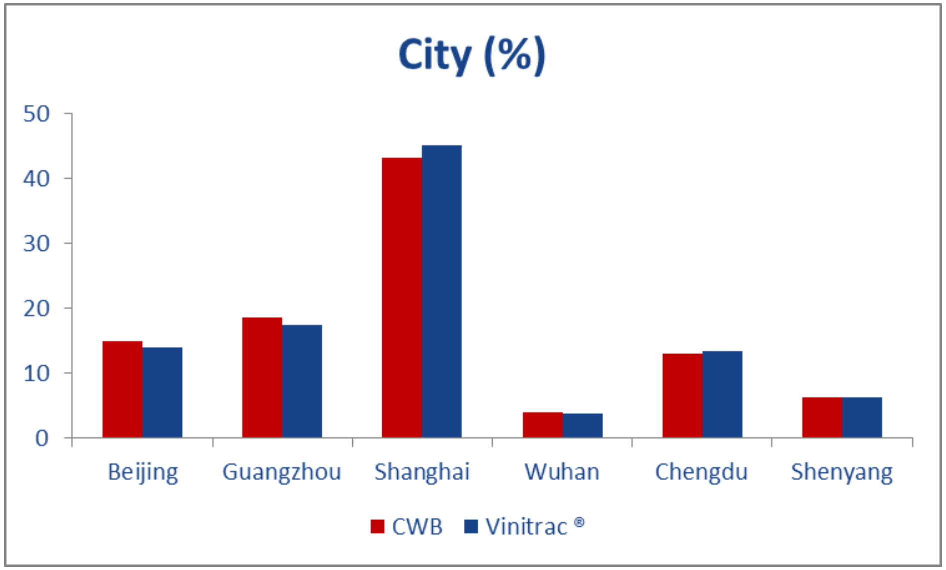
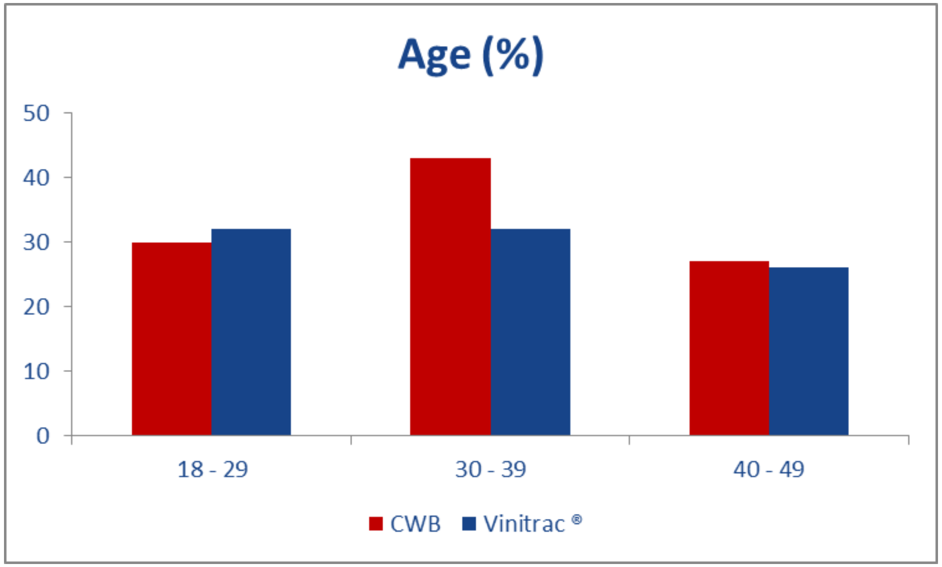
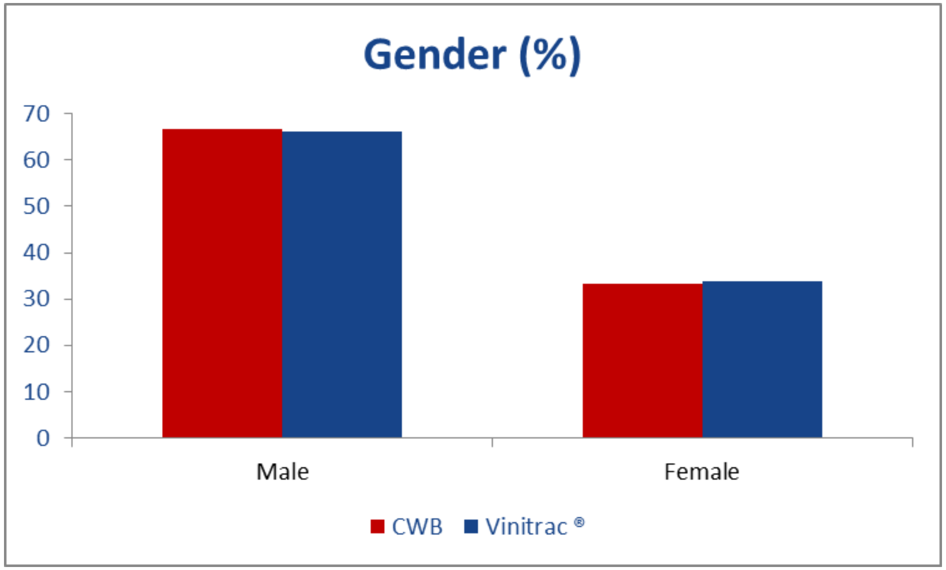
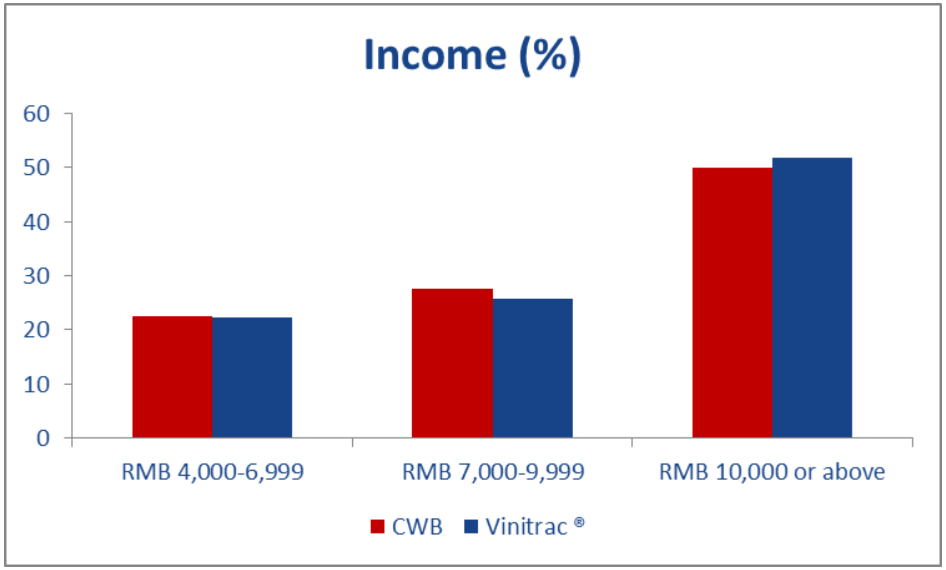
Comparable sample with Vinitrac ®









Reporting approach

The first section of the results presents the awareness levels of wine and its associated attributes in China as well as insights regarding off-premise consumption occasions. Reported behaviour of wine buying among Chinese consumers follows. Choice drivers for wine in the retail sector are then presented. The behaviour and attitudes Chinese consumers have about retailers in the off-premise and online sector close.

Reporting is based on conventional market research techniques and similar methods utilised in **Vinitrac®**. However, two methods, **Pick-Any** and **Best-Worst Scaling**, that have the potential to add further insight and are part of the Ehrenberg-Bass Institute tool kit, are applied and described in further detail in the following slides.

Methods

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Repeat purchase analysis

This analysis provides information on how the product attributes (country of origin, region of origin, grape variety, and price point) share their buyers.

Two measures are calculated and presented:

- **Penetration**: % number of buyers of any given product attribute over the total number of shoppers. This measure is important, because increasing buyers is the key to brand growth.
- **Repeat purchase rate**: % of buyers of product attribute *i* conditional on being a previous buyer of the same attribute *i*. This is a suitable measure of loyalty suited for the data collected in this study.

Best-Worst scaling

Best-Worst Scaling is a choice-based approach for measuring relative attribute importance. Respondents are asked to select the most-important (best) item and the least-important (worst) item from sets of three or more items.

The method is a break-through in market research because it uniquely produces a ratio-level scale of consumer preference as well as overcoming some of the response bias and discrimination problems that plague traditional techniques.

The most important element takes on a value of 100, and all less important attributes are a ratio relative to the most important attribute. This indexed display allows for ease of comparison, e.g. an item rated 75 is 75% as likely to be rated most important, compared with an item at 100. This method provides a more realistic overview of the tradeoffs consumers make in a decision-making process.

Pick-Any method

A pick-any method measures the perceptions consumers have about different off-premise and online retailers in relation to selected constructs that are representative of the key artifacts of the retail experience and can be represented visually using correspondence analysis.

Respondents are required to assess the items within each construct and indicate which, if any, retailer they would associate with each item. There is no restriction on the number of associations that can be held per item and can span across multiple retailers.

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Correspondence analysis (CA)

Correspondence analysis (CA) was chosen to analyse pick-any data.

This method allows for visualisation of the perceptions that consumers have about brand associations. CA can identify if certain brands possess similar characteristics and thus should be considered as direct competitors. The method can also identify if it is possible to position a brand using its unique associations.

This technique can help establish category entry points. In the context of this research, the results presented relate to the key retailers in the China wine market across brick-and-mortar and online channels.

Results

Awareness and consumption behaviour

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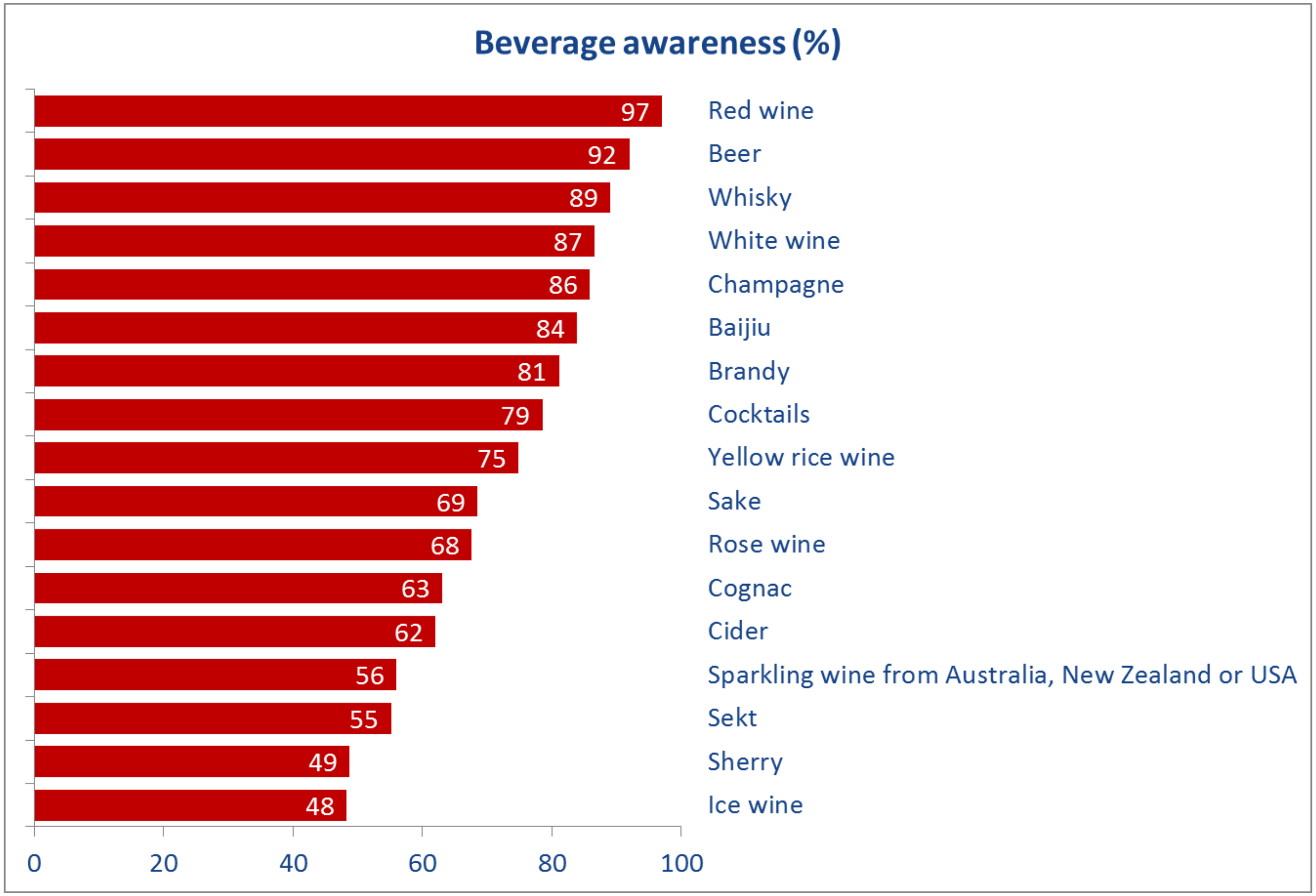
Red wine is dominant followed by beer, whisky, white wine and Champagne



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The quintessential bottle of wine is a French Cabernet Sauvignon from Bordeaux priced below RMB 200 (based on % 'aware' or % spending in retail)

France	**98 (+1%)**
China	86 (+2%)
Italy	81 (-2%)
Australia	77 (+0%)

Bordeaux	**83 (-4%)**
Ningxia	80 (NA)
Provence	65 (+6%)
Barossa Valley	46 (-7%)

Cab Sauv	**82 (-1%)**
Sauv Blanc	59 (+6%)
Chard.	55 (-3%)
Riesling	52 (+2%)

< RMB 200	**50**
RMB 200-499	37
≥ RMB 500	9
(retail)	

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In brackets the deviations from CWB Wave 1 – March 2013

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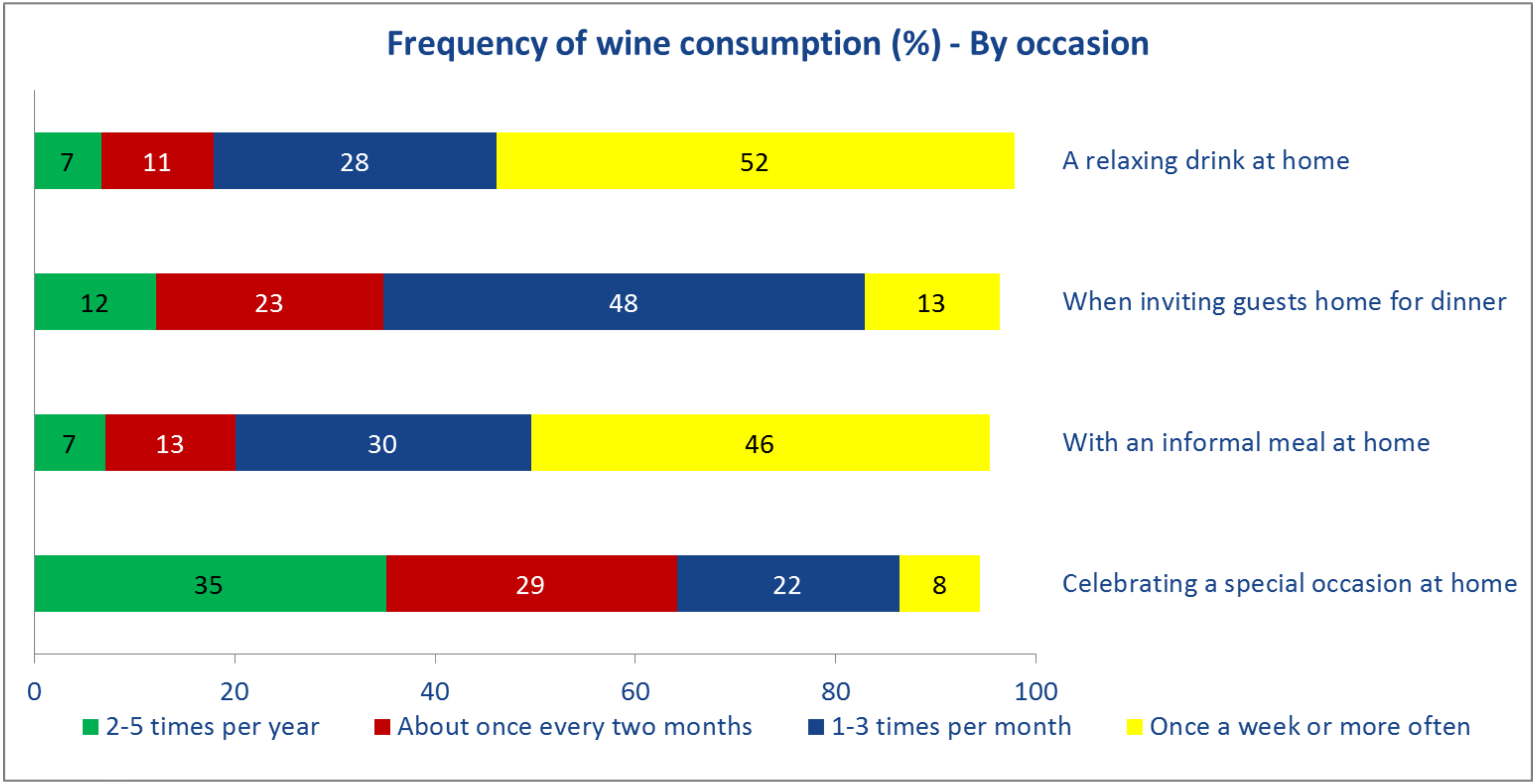
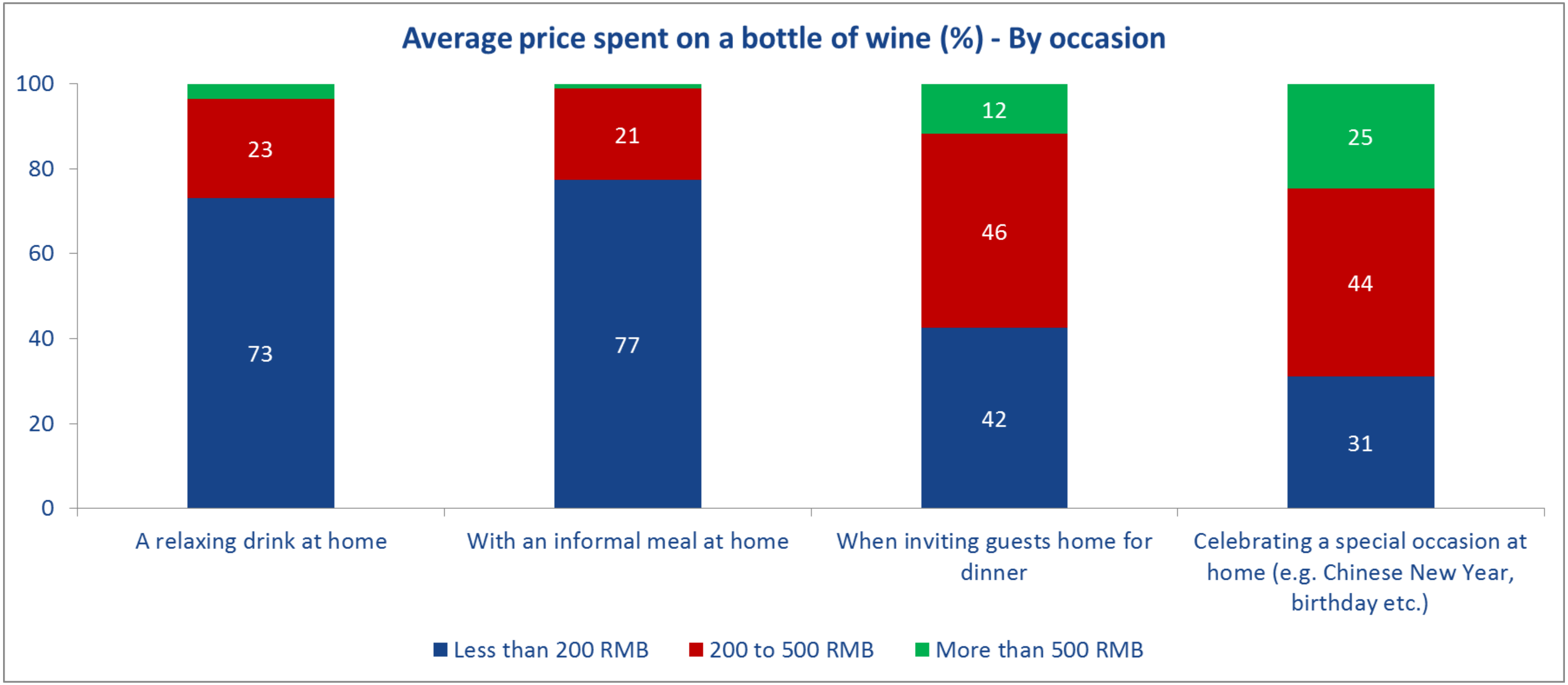
Weekly consumption prevalent for relaxing and informal occasions with frequency occasion dropping for hosting guests and celebrations



Relaxing and informal consumption occasions trend towards lower price wine with prices increasing for hosting guests and celebrations



No major differences detected between gender or city, however consumption frequency and price paid increase for affluent 30-39 years old consumers

Repeat purchase patterns
(based upon retrospective recall)

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China and France are the most purchased wine countries with highest loyalty to Chinese wines

Country of origin	Penetration (%)	Repeat Purchase Rate (%)
China	36	52
France	36	36
Italy	6	33
Australia	6	26
Chile	4	7
California	3	32
Spain	3	19
New Zealand	2	19

Low loyalty for Australian wines relative to their penetration. Australia performs better than Spain, New Zealand, and Chile, but worse than Italy and California

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In line with country of origin, Ningxia and Bordeaux are the most purchased regions with Ningxia having much higher loyalty than Bordeaux

Region of origin	Penetration (%)	Repeat Purchase Rate (%)
Ningxia	29	46
Bordeaux	21	26
Provence	6	8
Bourgogne	5	2
Sicily	3	8
Medoc	3	9
Cotes du Rhone	2	19
Napa Valley	2	15
Barossa Valley	2	13
Languedoc	2	20
Tuscany	2	10
Alsace	2	0
Loire	1	10

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Barossa has higher loyalty than several French and Italian regions, but penetration is still low

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Cabernet Sauvignon leads the market in both penetration and loyalty with niching behaviour displayed for Merlot, Shiraz/Syrah and Pinot Grigio

Grape variety	Penetration (%)	Repeat Purchase Rate (%)
Cabernet Sauvignon	31	38
Sauvignon Blanc	8	16
Chardonnay	7	14
Pinot Noir	5	7
Riesling	5	8
Merlot	4	21
Gamay	4	7
Carmenere	3	6
Shiraz/Syrah	3	11
Grenache	3	0
Zinfandel	2	9
Malbec	2	8
Pinot Grigio	2	13

Most typical price ranges from RMB 100 to 500, but consumers tend to stick to the same price range with niching behaviour at both ends of the scale

Price (retail)	Penetration (%)	Repeat Purchase Rate (%)
Less than 50 RMB	1	57
50 to 74 RMB	2	19
75 to 99 RMB	7	30
100 to 124 RMB	10	24
125 to 149 RMB	9	26
150 to 174 RMB	11	18
175 to 199 RMB	10	22
200 to 249 RMB	15	21
250 to 299 RMB	11	16
300 to 499 RMB	12	21
500 RMB or more	8	43

Retail choice drivers

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Methodological Explanation

China Wine Barometer

Using Best-Worst, the most important element takes on a value of 100, and all less important attributes are a ratio relative to the most important attribute

Vinitrac®

Rank the 5 most important elements, then weighted sum. The element with the highest score takes on a value of 100, and all less important attributes are a ratio relative to the most important attribute

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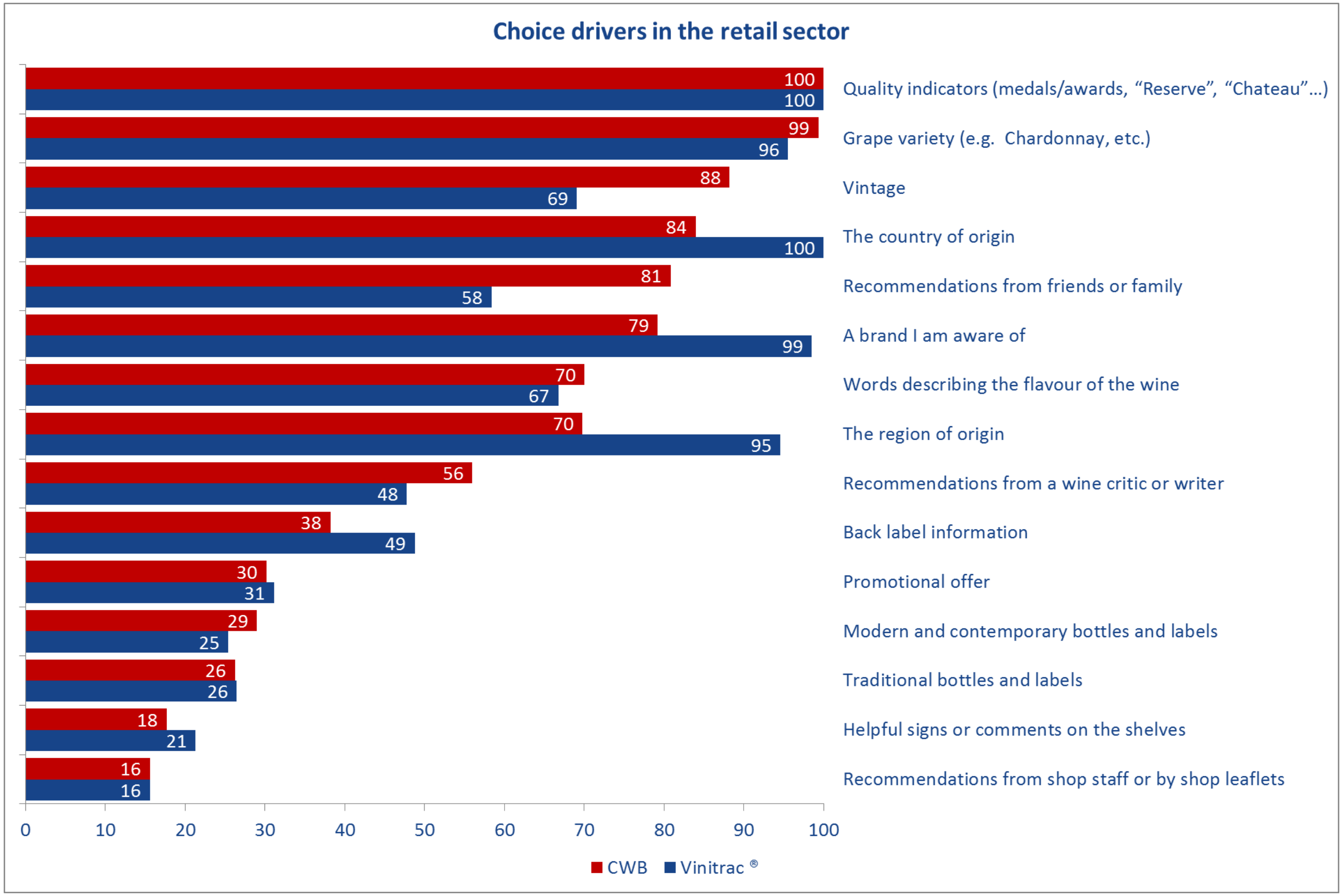
Quality indicators and grape variety have the largest impact with vintage, country of origin, and recommendations also playing an important role



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The greater importance of some attributes in the ***CWB*** *is due to the Best-Worst forcing tradeoffs and* **Vinitrac®** focusing on top 5 elements.

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Wine retail behaviour

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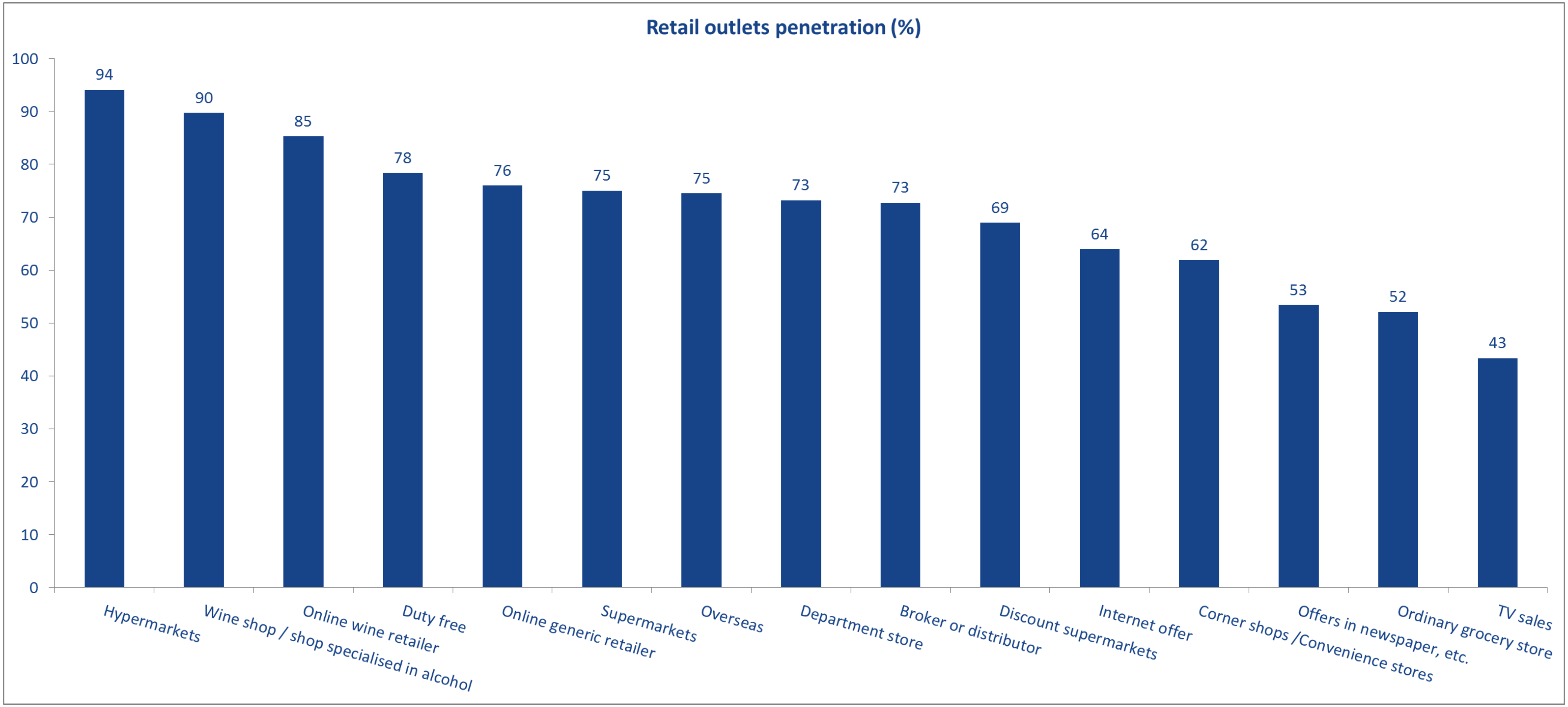
Leading wine retail channels are hypermarkets, specialty wine stores and online wine retailers, however penetration is above 50% for all but one channel



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Weekly purchase behaviour is rare in any channel. There is elevated purchase frequency for dominant channels compared to a more even distribution among lower penetration channels

Channel (Frequency %)							Total
Hypermarkets	4	8	22	27	26	8	94
Wine shop / shop specialised in alcohol	6	8	22	22	25	7	90
Online wine retailer	5	8	22	24	21	5	85
Duty free (at airports, etc.)	12	15	26	15	9	2	78
Online generic retailer	11	8	18	20	16	4	76
Supermarkets	10	8	14	20	17	5	75
Overseas	15	17	24	9	7	2	75
Department store	8	8	17	21	15	5	73
Broker or distributor	8	9	17	19	15	4	73
Discount supermarkets (offering products at lower prices)	9	9	16	16	15	4	69
Internet offer	9	6	13	16	17	3	64
Corner shops /Convenience stores	9	7	13	16	12	5	62
Offers in newspaper, mail catalogues, magazines	10	6	10	12	12	3	53
Ordinary grocery store	8	6	10	13	11	3	52
TV sales	8	6	9	10	9	2	43

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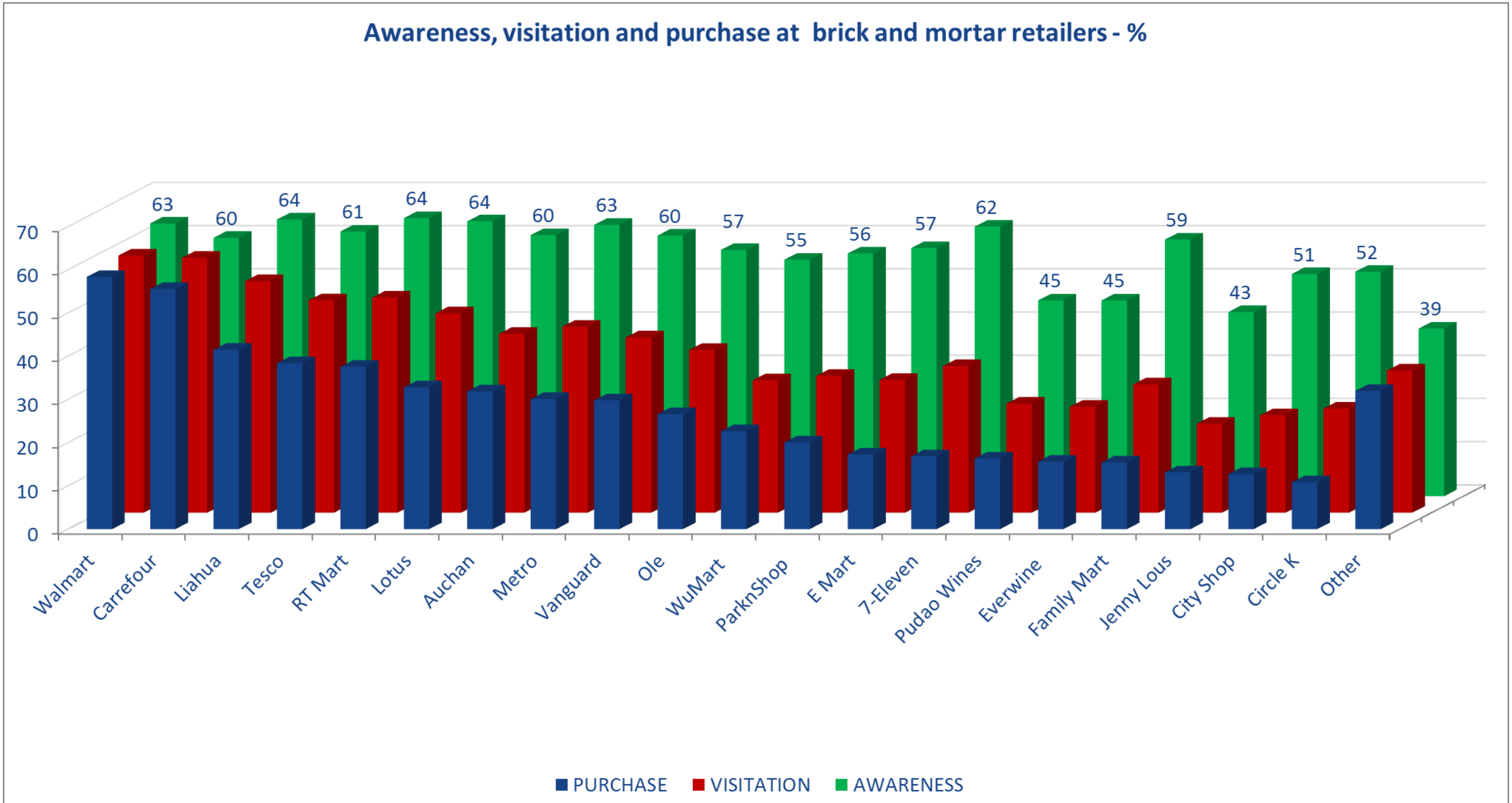
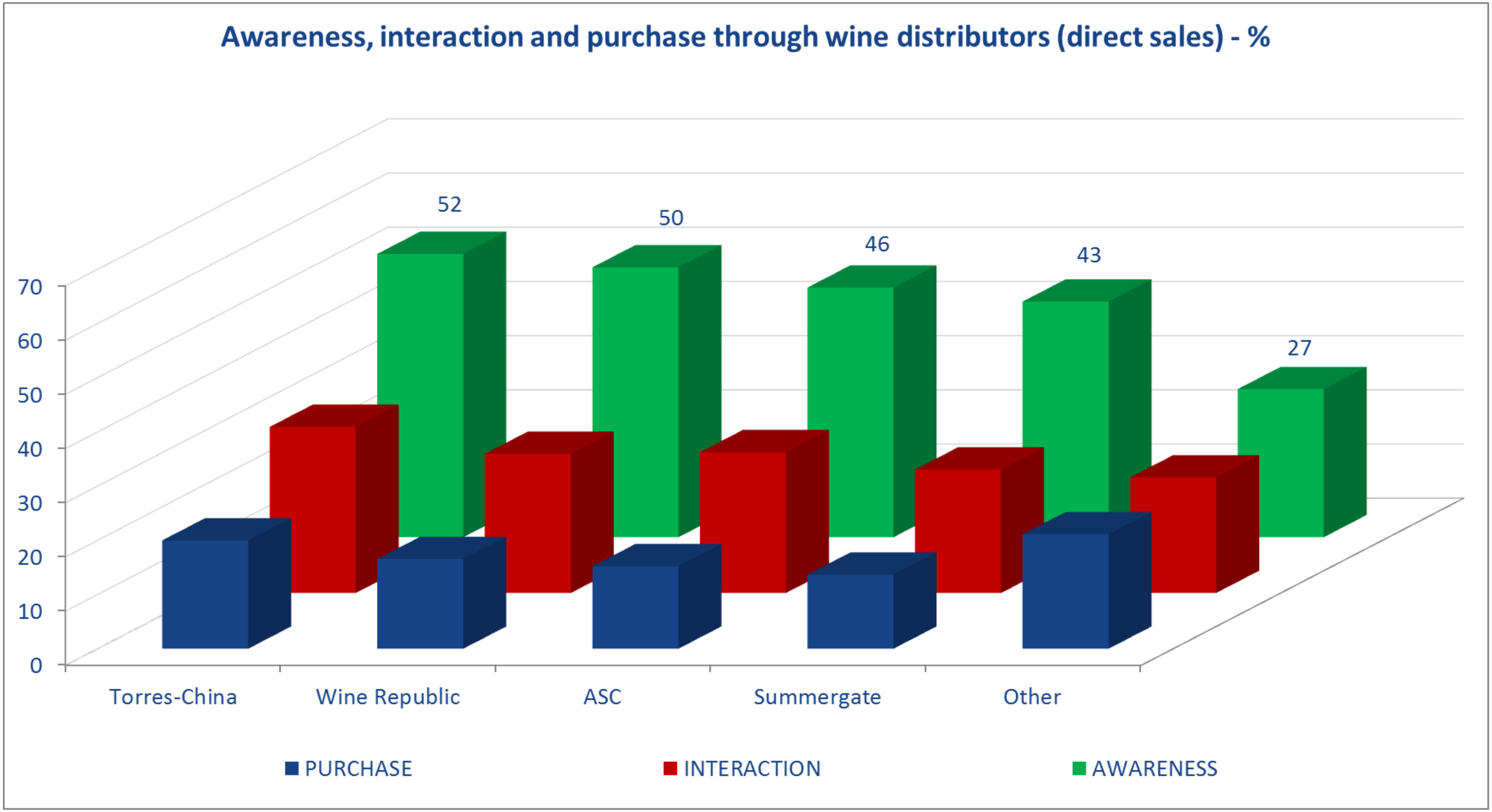
- Less often than once per year
- Once per year
- 2-5 times per year
- About once every two months
- 1-3 times per months
- Once a week or more often

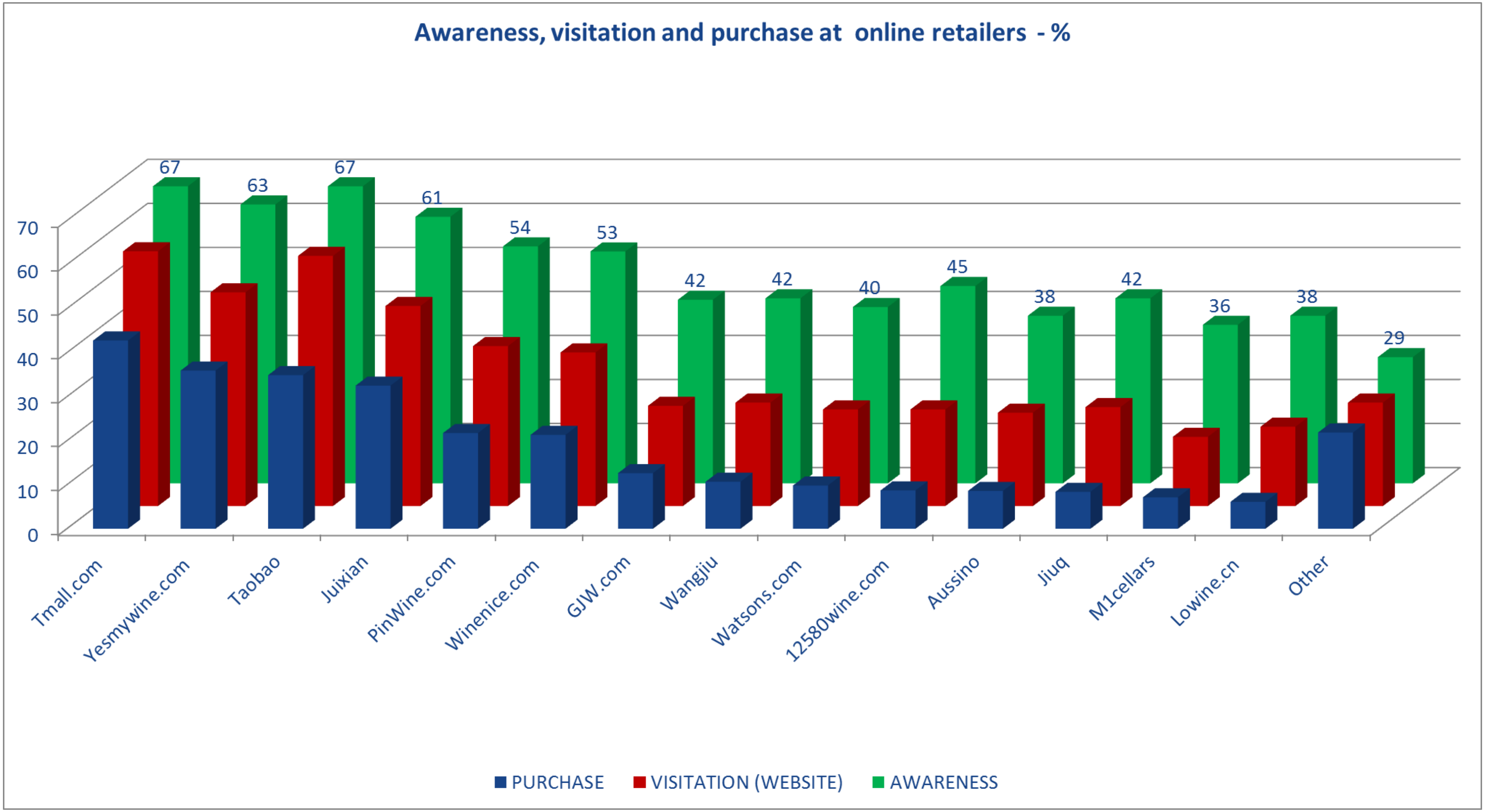
Customers' level of awareness of various brick and mortar retailers is relatively steady, but there are more wine buyers at hypermarkets



Torres-China and *Wine Republic* lead in terms of awareness but there is no clear leader in converting awareness to purchases

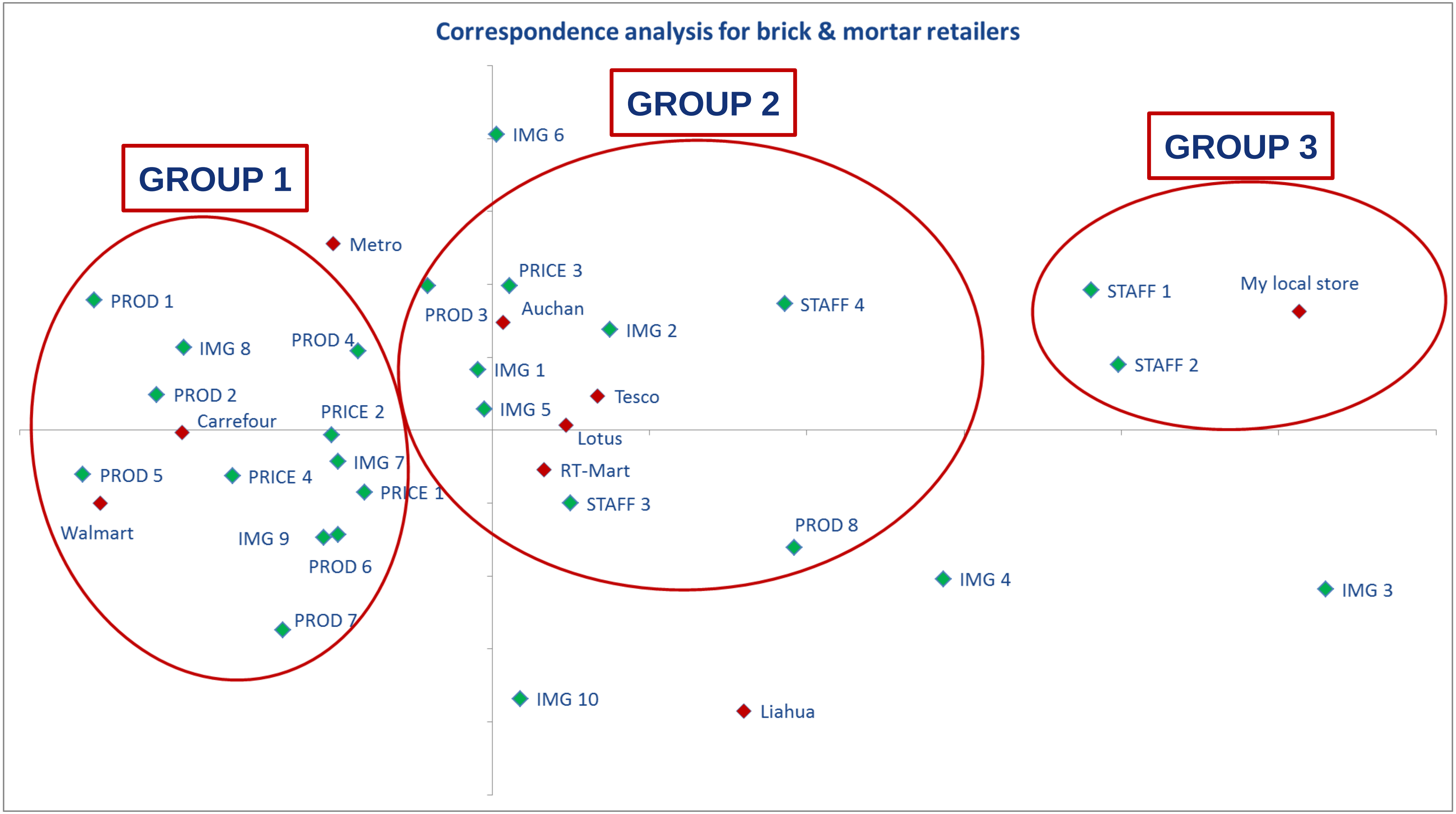


Chinese Alibaba's *Tmall* and *Taobao* along with US venture-capital-backed *Yesmywine* lead the online sector. The higher awareness sites have better conversion to purchase rates



Wine retailer perceptions

Classification of perceptions of brick & mortar retailers



There are 2 distinct store groupings, with staff interaction being a differentiator for local store expectation

The three store groupings can be characterised as follows:

Group 1 – *Walmart* and *Carrefour*:

- Carry a wide selection of wines, which are of good quality and generally available in stock
- Products easy to find on shelf with an easy return policy
- Good-value-for-money wines, discounts available, and visible prices
- Trustworthy retailers located in convenient locations

Group 2 – *Auchan*, *Tesco*, *Lotus* and *RT-Mart*:

- Fashionable wines with greater online purchase accessibility
- Low prices compared to similar retailers
- Clean and tidy stores with excellent atmosphere suitable to serve the middle class.
- Friendly staff, who provide good customer service

Group 3 – 'my local store':

- Good customer relationships
- Staff capable of providing wine recommendations

Metro and ***Liahua*** do not seem to be associated with any particular dimension

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Private labels do not seem to be connected with any retailers. No retailers seem to be particularly perceived to be a world-class retailer, have a Chinese appeal, or project a conservative image.

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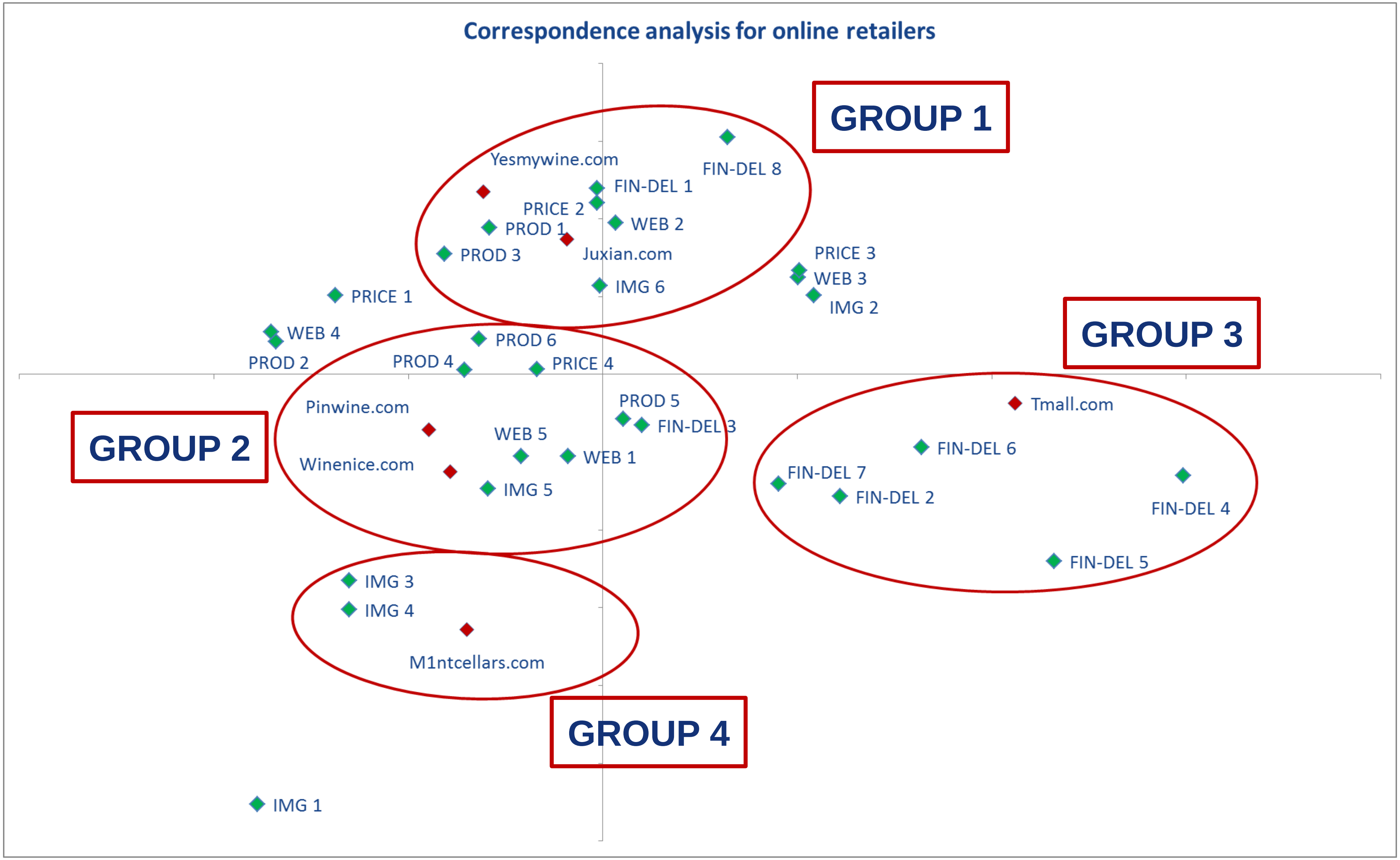
Items used to measure brick & mortar retailers' perceptions

Dimension	#	Items
Product range	PROD 1	The retailer carries a wide selection of wines
	PROD 2	The wines stocked by the retailer are of good quality
	PROD 3	The wines sold by the retailer are fashionable
	PROD 4	The retailer's private label brands are reliable
	PROD 5	The retailer operates an easy return policy for wines
	PROD 6	The retailer always carries the wines that I want in stock
	PROD 7	The wines that I want are easy to find on shelf
	PROD 8	I buy on-line from this retailer
Price	PRICE 1	The retailer makes the prices of the wines easily visible on the shelf
	PRICE 2	Discounts are available from the retailer
	PRICE 3	Prices for wines are low compared to similar retailers
	PRICE 4	You get good value for money on the wines sold by the retailer
Staff	STAFF 1	The staff is able to give recommendations about the wines
	STAFF 2	The staff develop a good relationship with the customers in the store
	STAFF 3	The retailer personnel are helpful
	STAFF 4	The retailer personnel are friendly
General image and location	IMG 1	The retailer's stores are clean and tidy
	IMG 2	The retailer's stores atmosphere is excellent
	IMG 3	The retailer projects a conservative image
	IMG 4	The retailer has a clear Chinese appeal
	IMG 5	The retailer serves the middleclass
	IMG 6	The retailer is a world class wine retailer
	IMG 7	The retailer transmits a reliable image
	IMG 8	I find the retailer totally trustworthy
	IMG 9	The retailer's stores are located in convenient locations
	IMG 10	I have shopped at this retailer previously

Classification of shoppers perceptions of online retailers



Whilst *Tmall* and *M1ntcellars* stand alone with recognition for online security and brand image, the other 2 groups represent distinct pairings of online retailers

The websites of e-retailers are perceived to have difficult navigation, hard to read prices and poor product recommendations. There are no online retailers recognised for quality wines, having low prices or a Chinese appeal.

The four store groupings can be characterised as follows:

Group 1 - *Yesmywine.com* and *Juixian.com*:

- Wide selection of fashionable wines with price discounts available
- Attractive websites with prevalent online advertising
- Total trust in these online retailers, who are more salient and have repeat purchase

Group 2 - *Pinwine.com* and *Winenice.com*:

- Well-stocked, good-value-for-money (branded and private label) wines with easy return policy
- Fun, pleasurable and easy to navigate websites
- Safe storage of personal data which contributes to an overall reliable image

Group 3 - *Tmall.com*:

- Exclusively characterised by the security and speed of financial transactions
- Safe and fast range delivery options

Group 4 – *M1ntcellars.com*:

- World class retailer serving the middle class

Items used to measure online retailers' perceptions

Dimension	#	Items
Product range	PROD 1	The online retailer carries a wide selection of wines
	PROD 2	The wines sold by the online retailer are of good quality
	PROD 3	The wines sold by the online retailer are fashionable
	PROD 4	The online retailer's private label brands are reliable
	PROD 5	The online retailer operates an easy return policy for wines
	PROD 6	The online retailer always has the wines that I want in stock
Price	PRICE 1	The online retailer makes the prices of the wines easily visible on the website
	PRICE 2	Discounts are available from the online retailer
	PRICE 3	Prices for wines are low compared to similar online retailers
	PRICE 4	You get good value for money on the wines sold by the online retailer
Website image	WEB 1	The website is fun
	WEB 2	The website is attractive
	WEB 3	The website is easy to navigate
	WEB 4	The website provides good recommendations about the wine
	WEB 5	I have great pleasure browsing through the website
General image	IMG 1	The online retailer projects a conservative image
	IMG 2	The online retailer has a clear Chinese appeal
	IMG 3	The online retailer serves the middleclass
	IMG 4	The online retailer is a world class wine retailer
	IMG 5	The online retailer transmits a reliable image
	IMG 6	I find the online retailer totally trustworthy
Financial transactions and delivery options	FIN-DEL 1	I frequently see advertisement about the online retailer on the internet
	FIN-DEL 2	The online retailer offers a wide range of delivery options
	FIN-DEL 3	The online retailer keeps my personal data confidential
	FIN-DEL 4	The online retailer has safe financial transactions
	FIN-DEL 5	The online retailer has fast financial transactions
	FIN-DEL 6	The online retailer delivers wine fast
	FIN-DEL 7	The online retailer delivers wine safely
	FIN-DEL 8	I have shopped at this retailer previously

Recommendations

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The opportunity for Australia

The insights from this report can inform decision making for the Australian wine sector in the retail channel (brick & mortar, direct sales from distributors and online).

Competitive advantage can be achieved though actions at industry and producer levels:

Industry level actions:

- Continued marketing activity required to compete with the dominant salience of French wines and also position Australian wine better in the context of our adjacent competition in China and Italy.
- Understanding that the frequency of consumption increases for relaxed or informal settings could dictate strategy however these occasions trend to lower cost wines.
- Low loyalty (repeat purchase rate) for Australian wine dictates a need for a growth strategy based on increasing market penetration.
- Quality indicators and grape variety must be integral to communications strategy as these are key choice factors in retail.
- Understanding penetration of retail channels should help Wine Australia prioritise actions.

The opportunity for Australia (cont.)

Producer level actions:

- Understanding penetration and loyalty (repeat purchase rate) levels for grape varieties and price tiers should help dictate product allocation for the China market.
- Knowing penetration and purchase frequency of retail channels in China will help producers develop action plans for channel engagement.
- Understanding awareness and conversion rates among Chinese wine drinkers for brick & mortar, direct sales (from distributors) and e-retailers will drive business development strategy.
- Interpreting the classification of brick & mortar and e-retailers by type of experience will assist in alignment of wine brands with seller image.

GWRDC Grape and Wine Research and Development Corporation

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