



Peak China?

*Navigating the Digital Marketing Landscape in
China's Wine & Spirit Industry*

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Navigating the Digital Marketing Landscape in China's Wine & Spirit Industry

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China has been a key player in the global economy, experiencing significant growth over the past few decades. Its rapid industrialization, export-oriented policies, and massive infrastructure projects have propelled it to become the world's second-largest economy. However, in the last few years China has witnessed significant headwinds with a collapsing property sector, declining working population, sagging consumer confidence and significant constraints around technology trade. Reports of 'Peak China' have become frequent in the international media.

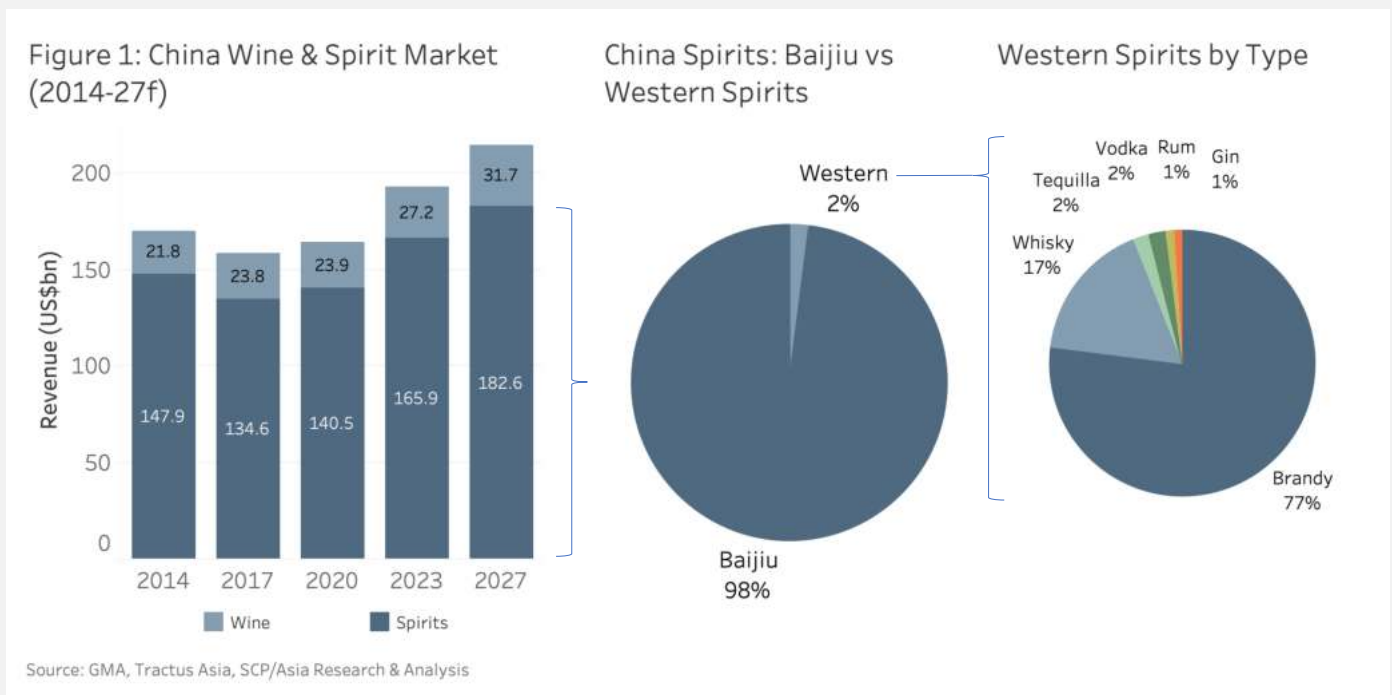
Based on recent project experience we're diving into a number of industry sectors to explore whether China truly has become 'uninvestible', as some commentators believe, or whether China remains 'open for business', a narrative currently pushed hard by China's government. In this third article we take a deep dive into a consumer sector and will explore the best practices and emerging trends in digital marketing within the wine & spirit sector.

Rocky Ride for China's Wine & Spirit industry

The onset of covid caused many unexpected supply chain bottlenecks for international alcoholic beverage producers. Demand was high in 2021 from an increase in consumption at home which led to a spurt in sales from off-trade channels (including e-commerce) while sales from global travel retail and on-trade channels declined.

In response, international brands increased their production in 2022 but that year China’s alcoholic beverages market endured probably the most challenging year of the past 2 decades, as renewed Covid-19 lockdowns and consumer caution led to a 4% volume decline, according to IWSR data, and with total revenue reaching \$319.9 billion in that yearⁱ. Wine suffered a 26% volume decline thanks to a slump in demand coupled with punitive tariffs on Australian wine imports, while spirits volumes fell by 17% and beer was essentially flat (+0.4%).

The industry faced more headwinds in 2023 as the resumption of international travel was subdued and sales through travel retail channels was not enough to offset the domestic decline in demand. Though the initial re-opening of China in Q1 2023 disappointed in terms of the extent of the rebound, a gradual recovery in consumption was seen in H2 2023, especially in on-trade.



Overall, the trade sentiment for China was cautious leading up to CNY 2024. With the rise of e-commerce and innovative online platforms, the Chinese Alcoholic Beverages e-commerce market is predicted to reach US\$35.8 billion by 2024ⁱⁱ with an expected compound annual growth rate for the next four years (CAGR 2024-2028) of 9.2%, resulting in a projected market value of US\$51 billion by 2028.

Consumer Trends: Social Occasions and Unique Experiences

Social occasions and the desire for unique experiences have a significant influence on the consumption patterns and preferences of Chinese consumers in the spirits market. One of the reasons people drink whisky is for social occasions. Young generations gather at nightclubs or brand gatherings, where whiskey is used as a social drink. In these social settings, the specific brand or type of spirit may not matter as much as the socializing experience itself.

Social occasions and the desire for unique experiences play a significant role in shaping the consumption patterns of Chinese consumers

Furthermore, the consumption of single malt whiskey is driven by the desire for unique experiences. Chinese consumers are more inclined to choose spirits that are distinctive and offer something different. They want to stand out and have a memorable experience, which makes single malt whiskey a popular choice. Cognac on the other hand is no longer the trendy spirit in China due to its strong taste that not everyone can accept.

Additionally, there is a trend of using white spirits like vodka and gin to make different kinds of cocktails. Chinese consumers are experimenting with these spirits to create unique and interesting cocktail combinations. The focus is not solely on the white spirits themselves but rather on the cocktails they can be transformed into, highlighting the desire for innovative and personalized experiences. On the back of this trend, ready-to-drink options are gaining in popularity and showing faster growth in recent years.

Overall, social occasions and the desire for unique experiences play a significant role in shaping the consumption patterns and preferences of Chinese consumers in the spirits market. They seek spirits that can enhance their social interactions and provide them with distinct and memorable experiences.

Travel Retail channels in China

Another development after the COVID pandemic was that the Chinese authorities have been actively promoting development of multiple duty-free zones at various hubs around China with duty free allowances available to Chinese locals travelling to these duty-

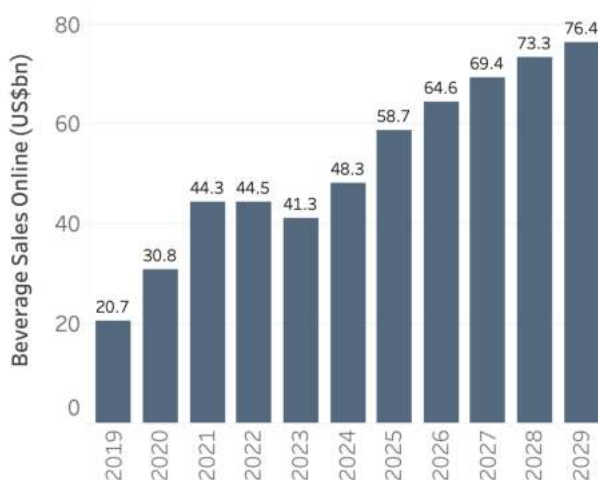
free zones and returning to China. This is to tap into the purchases by Chinese tourists during their overseas travel to South Korea, Japan, Singapore, Vietnam and even Europe and USA when Chinese tourists were significant spenders at these overseas duty-free locations before the COVID travel restrictions.

These duty-free zones also provide avenues for Chinese local consumers to avail of duty-free prices without having to travel far out of China. Though the Hainan and Macau duty free zone was present/developed before the pandemic, various other duty-free zones are being promoted like the Boten, Laos – Mohan, Yunnan (China) border and Muse, Myanmar – Ruili, Yunnan (China) borders crossings.

The Role of Online Presence for Spirit Brands

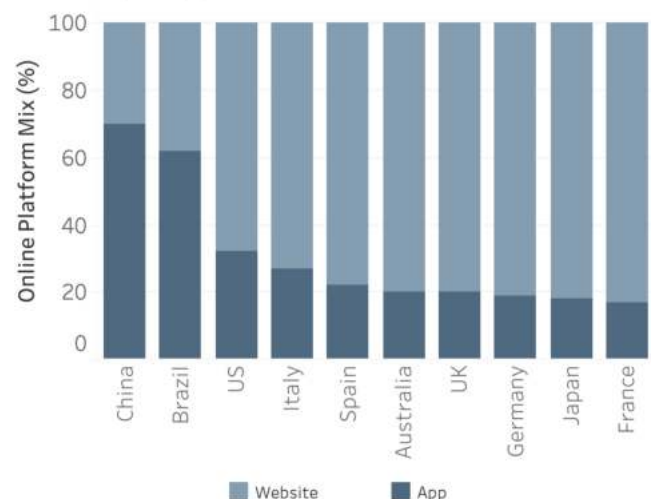
Having a strong online presence plays a crucial role in the success of spirits brands in China, and it has a significant impact on their offline sales. It allows brands to tap into a significant portion of the market and reach consumers through various online platforms. 25-30% of wine is sold through online channels and in the spirits categories online accounts for 8% to 10% of sales.

Figure 2: China Beverage Market - Sales through online channels (2019-29f)



Source: Statista, IWSR, SCP/Asia Research & Analysis

Figure 3: Online platform mix across 10 major markets (2022)



China has one billion active internet users and 55% of Chinese alcohol consumers order online.ⁱⁱⁱ China’s overall online share for

alcohol beverages is 14.3% and sales are expected to increase by an average of 17.2% per annum with the online channel share increasing to 27.1% by 2028.^{iv}

Online presence of is becoming increasingly important as consumers explore more diverse channels

There has been a shift in the market dynamics, especially among the younger generation. Traditionally, a larger portion of sales occurred offline. However, younger consumers are increasingly realizing that drinking occasions for wine and spirits are not limited to nightclubs. The online presence of spirits brands is becoming increasingly important as consumers explore more diverse channels for purchasing and consuming spirits.

Consumers also tend to do most of their research wine and spirits products online which makes it crucial to build a digital brand presence to reach these consumers who are seeking reputable brands for premium and personalized experiences.

Furthermore, the impact of online presence on offline sales can be seen in personalized menu's for spirits. When customers order wine and spirits online, store owners can personalize their menu's and provide recommendations for the customers to choose specific spirits. This suggests that a strong online presence can drive offline sales by building brand recognition, trust, and loyalty among consumers. In other words, a strong online presence can have a positive impact on offline sales by building brand awareness and influencing consumer choices.

Online Channel Landscape

Whilst offline channels still account for over 70% of sales, building an online presence is important for branding and exposure. The shift to e-commerce and vertical platforms is the reality in China, as relatively few consumers search specifically for brands or visit official brand sites. Below we list the 3 main online channel types and 2 leading players in each segment. These 6 channel players should play a prominent role for any brand looking to crack into China's spirit market.

- 1. Spirit Vertical Marketplaces:** 1919 and Zhou Xian have become the de facto leaders in the vertical market for wine

and spirits in China. They are among the most popular and influential platforms in the industry.

1919 stands out for its integration of big data, warehouse capacity, and collaboration with store owners to enhance authenticity. 1919 addresses these concerns by offering genuine products and faster delivery through their central warehouse. The brand also personalizes recommendations based on professional opinions to create an authentic experience for consumers. Brands can negotiate directly with 1919 to access their platform either by supplying stores or working with their warehouses for direct-to-consumer deliveries.

- 2. E-Commerce Platforms:** Other players in the market include JD.com and T-Mall. While JD.com has a larger market share overall, T-Mall remains bigger specifically for Moët-Hennessey due to deep cooperation between the two companies.
- 3. Food Delivery Apps:** A few years ago, a new trend emerged when consumers started ordering wine and spirits along with their take-away meals. Meituan and Eleme are China's biggest food delivery platforms. On these platforms, consumers can order various products, including spirits, alongside their food orders.

China's online platform preference is strongly geared towards apps versus websites

Another important digital channel presence is having visibility on Baidu which is the leading search engine in China. It is advisable for brands to have a website in Mandarin and hosted in China as Baidu doesn't rank websites that are hosted outside China in foreign languages in its search results. Search Engine Optimisation (SEO) on Baidu search is critical for building long term presence while using more expensive advertising options through PPC (Pay-per-click) and SEM (Search-engine-marketing) in the short term. Baidu also has its own ecosystem with other platforms like Baidu Zhidao (Q&A), Baidu Baike (Wikipedia), and Baidu Tieba (Forum) to where a significant portion of their traffic is redirected.

Chinese consumers prefer trusted websites as listed above for ordering alcoholic beverages online. Authenticity, quality and

reputation are very important factors for Chinese online shoppers. Community selling may not be suitable for the wine & spirits category due to the lack of confidence in Pinduoduo, China's leading community selling platform, in terms of carrying genuine products.

5 Best Practices in Digital Spirits Marketing

Besides generating sales, brands leverage various online channels to build their brands and engage with the consumers. Below we have summarised the 5 best practices for spirit brands to thrive in China's digital marketing arena:

- 1. Embracing E-commerce:** E-commerce platforms play a crucial role in the success of spirits brands in China. Platforms like 1919 and Zhou Xian have become leaders in the vertical market for wine and spirits, offering a wide range of products to consumers. Brands should establish a strong online presence on these platforms to reach a broader audience and tap into the growing trend of online alcohol purchasing.
- 2. Leveraging Influencer Marketing:** Influencer marketing has gained significant traction in China's digital landscape. Collaborating with influencers who have a strong following and influence in the spirits industry can help brands enhance their visibility and credibility. By partnering with key opinion leaders (KOLs) or influencers who specialize in the wine and spirits niche, brands can reach their target audience effectively and generate buzz around their products. Brands are working with KOLs on platforms like Taobao Live Streaming and Kuaishou (similar to TikTok) to promote their products. There are four key periods for campaigns: Chinese New Year, June 18th promotion season, mid-Autumn festival in August or September, and end-of-year festivities.
- 3. Harnessing Social Media Platforms:** Social media platforms like WeChat and Weibo are integral to Chinese consumers' daily lives. Brands should leverage these platforms to engage with their target

audience, share compelling content, and build brand loyalty. Utilizing features such as mini-programs on WeChat can provide a seamless shopping experience for consumers, enabling them to browse, purchase, and share their favourite spirits with ease. Weibo is a microblogging platform like Twitter (or X) but synthesised with features of Instagram, Pinterest, Reddit, and YouTube. More than 56% of Weibo users follow at least one brand on Weibo^v. Thus having a verified Weibo account is a key component of digital presence in China.

4. Localization and Cultural Relevance: Understanding the local market and cultural nuances is crucial for success in China. Brands should tailor their digital marketing strategies to align with Chinese consumer preferences and trends. This includes incorporating localized content, partnering with local influencers, and participating in cultural events and festivals. By demonstrating an understanding of Chinese culture, brands can build trust and resonate with their target audience.

Even traditional Public Relations involving journalists and media members in trade events to promote your brands would provide traction as Chinese consumers read content from local journalists and reading about your brand from them would add authenticity to your brand. Another example of localization would be your brand websites which should be in Chinese with a lot of information. Western consumers may tend to prefer a clean aesthetic website whereas Chinese consumers are accustomed to colourful and animated websites.^{vi}

5. Data-Driven Marketing: Data analytics and insights play a vital role in optimizing digital marketing campaigns. Brands should leverage data to gain a deeper understanding of consumer behaviour, preferences, and purchasing patterns. This information can be used to refine marketing strategies, personalize content, and target specific consumer segments effectively. By harnessing data-driven marketing techniques, brands can improve their ROI and drive meaningful engagement with Chinese consumers.

Conclusion

The digital marketing landscape in China's spirit industry presents immense opportunities for brands to connect with Chinese consumers and drive sales. By embracing e-commerce platforms, leveraging influencer marketing, harnessing social media, localizing strategies, and utilizing data-driven insights, brands can establish a strong online presence and build long-lasting relationships with their target audience. Understanding the various market segments within the alcoholic beverages category in China, the various offline and online sales channels and studying the key motivations of the Chinese traditional consumer & new millennial consumers would lay the groundwork for identifying your target segment to compete in and preparing a holistic marketing strategy for success in the Chinese marketplace. As the digital landscape in China continues to evolve, staying agile and adapting to emerging trends will be key to success in this dynamic market.

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ⁱ <https://marketingtochina.com/sell-wine-spirit-and-beer-in-china/>

ⁱⁱ <https://ecommercedb.com/markets/cn/alcoholic-beverages>

ⁱⁱⁱ <https://marketingtochina.com/sell-wine-spirit-and-beer-in-china/>

^{iv} <https://ecommercedb.com/markets/cn/alcoholic-beverages>

^v <https://marketingtochina.com/sell-wine-spirit-and-beer-in-china/>

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