



Claudia Masueger and staff member Julia of Cheers Wines

NEW ROADS TO CHINA

While much of the wine world is beating a path to China's door, finding appropriate distribution is a stumbling block for many. Jim Boyce looks at three businesses that have decided to approach China in a different way.

China's wine market can be equally appealing and puzzling for producers that have yet to establish a foothold. For many, it seems like the key step is to either jump in with a major established importer such as ASC, Torres or Summergate - even though these companies have few open slots in their portfolios - or to dip a toe into the sea of smaller operations, even though this carries the risk of an inexperienced partner and a "one container and done" deal. Given a blend of limited options, an increasingly competitive market due to a flood of brands and rising consumer savvy, and a desire to control one's destiny, and it is no surprise that some producers are seeking alternate ways to market.

Podium Wines

Newcomer Podium Wines is explicit about reducing the path from winery to consumer given its tagline of 'Australian Premium Wines, Without the Middle Man'. Mathew

Ryan, who has done everything from open a wine bar to promote craft beer since moving to Shanghai in 2004, helped start the company after requests from several Australian wineries he assisted at trade shows in China last year. The aim is to give them better market access, better pricing and better brand support, with five wineries in the group so far: Coombe (Yarra Valley), Dal Zotto (King Valley), Jeanerat (Clare Valley), Pepper Tree (Hunter Valley) and Woodstock (McLaren Vale).

"Obviously, mainstream importers and distributors rely on the margins they make here for their profits. As Podium is owned by the wineries we represent, we add only a small margin in order to cover our administrative and importing costs," says Ryan, who adds that sub-distributors see 25% to 33% off the bottom line with this method. "We won't be selling direct to restaurants or bars, so there will always be a sub-distributor getting a margin, but our model cuts out one of the tiers, and allows us to focus on marketing support

for our partners."

The model also allows the partner control of the portfolio.

"With a couple of key founding partners, we decided amongst ourselves which of my current clients would be invited to participate," he says. "We've been careful to get a good mix of price points and geographical representation from the Australian wine regions." There are plans to add wineries from Barossa Valley and Margaret River

Podium is based in Qingdao on the east coast, due to local government support for promoting the city as a logistics hub, easy accessibility to the country's major markets, and lower costs. It took about eight weeks to get the relevant licenses and tax status, at about 20% of the cost in Shanghai, says Ryan, who adds that it delighted local officials.

"Customs love us here," he says. "They love the fact that an Australian wine company would set up here and not Shanghai or Beijing."



Matthew Ryan, managing director, Podium Wines

Podium contracts a company to provide a bonded warehouse, with taxes only due one month after stock is removed, and to help with duties such as clearing customs, says Ryan. It also has an office in Qingdao that doubles as a showroom and wine bar, with plans to open one in Shanghai later this year.

“Our customers love it, and it shows that we are not a Chinese trading company, we are a true cellar door for the winery,” he says.

Podium received its first shipment this month - four containers - and Ryan says he has a handful of distributors lined up, primarily in Qingdao, with more to come from the steady stream of trade fairs held in China.

“There are literally hundreds of small importers and distributors that have in the past only dealt with French or Italian wines, as that’s all they’ve ever known,” he says. “It’s these guys that we want to find. Small guys, with a good sales network and a good group of customers, that need an Australian option, but the ability to buy small volumes.”

He cites the recent wine fair in Chengdu, the country’s biggest, as a good example.

“We had a booth, and it was quite a good one, but waiting for people to come past is not the best,” he says. “We sent our staff out, and myself, to find importers that only had say French or Italian wine, and told them they need Australian wine and dragged them back to our booth. This worked very well for us.”

Ryan also says distributors are good portals for more clients.

“It’s a strange market here in that all of the distributors know each other,” he says, adding that it is true even if they are in different provinces or regions. While that makes it difficult - Ryan says “impossible” - to dif-

ferentiate pricing, it has an upside. “It makes it easier to find distributors, as if you have a good relationship with a key guy, he’ll introduce you to his friends in the provinces that he’s not active, or for a product that he’s not active in.”

Ryan acknowledges the Podium model is largely dependent on having the right people on the ground. “It’s all about the guanxi [relationships],” he says. “I was lucky enough to get a guy I had working for me in my bar 10 years ago to come on as my operations guy. He is well connected here, and it’s been a great help.”

He also says his own experience in helping set up four companies in China and his relations with agents is invaluable. “It’s impossible without this experience,” he says. “You can’t just hire someone local to know this.”

Le Ponty Wines

Bordeaux wine producers have an advantage in China as their region is the most likely to be known by the average consumer. Beyond that, newcomers face the same issues as everyone else in finding a niche.

With production of 80,000 bottles per year, which was too small for some major importers as only some of it is designated for China, and with a wariness of smaller partners, Helene Ponty took an alternative route for selling the wines made by her father, Michel Ponty of Les Vignobles Ponty in Canon Fronsac: She moved to Beijing in 2012 to control importing, distribution and branding herself.

“Most [Bordeaux producers] don’t even know what price their wine is sold at in China, don’t even know where it is sold,” she says.

Ponty arrived with a plan: “I thought I’d come, sell at a super-cheap price and it would work great.”

It didn’t work out that way. For one thing, at one wine show she found people praising the family wine but criticizing the price as too low to make it feasible for gifts. “You need some cheaper wines for the distributors but you also need something people feel is rare and exclusive, and that means expensive,” she says. “[Consumers] have to be quite educated to understand value. Otherwise the main indicator is price.”

For another thing, handling sales herself proved difficult given the size of Beijing let alone China.

“I decided to work with select distributors and build long-term relationships in smaller cities like Qingdao,” she says.

Ponty explains that smaller distributors rarely work directly with a winery but instead buy from an importer or at times a negociant if they themselves decide to import. Having direct access to a Bordeaux winery such as Vignobles Ponty is a boon for them.

“Whichever city I go people treat me so well, they show me around, invite me to the best meals, and organize the best events with their clients,” she says. “The smaller distributors are also very nimble and they know their local market very well. We are a small company ourselves so we like working with people who are flexible, can react fast and adapt to the changing market.”

On her side, she feels her brand is valued, “whereas for a company like ASC or Torres, we would be just an item in the portfolio because we are no Penfolds or Rothschild.”

In addition to playing the role of importer, she is also above to provide on-the-ground support, noting that selling wine is only the beginning.

“People in Bordeaux feel that once the wine is sold, the job is done,” she says. “But selling the wine is the first step. If I help [my distributors] sell it, the faster they sell the more they will order.”

Ponty helps by providing videos, brochures and other materials in Chinese, by quickly answering requests for info such as winery photos, and by travelling around China to participate in events.

“I was in Harbin yesterday, Hefei today,” she says. “I do presentations on our winery, basic knowledge about Bordeaux and wine culture.

It makes the biggest difference.”

She also does staff training about the winery and wines. “Basically they get the training and support they would get from a big importer like ASC but also all the direct winery knowledge and materials that you can only get from working directly with the winery,” she says.

In seeking distributors, she avoids operations focused on very cheap, and possibly fake, wines. She also steers clear of distributors that only have a few key accounts. “Companies who have two government agencies as clients and resell with a 500% markup are not my target,” she says. “We like to work with people who want to get good quality wines, at a good price, with a good story and bring it to actual consumers.”

She generally works with two to three agents in ‘first-tier’ cities and one agent in ‘second-tier’ and ‘third-tier’ ones.

Ponty says her “biggest headache” has been hiring and managing staff, especially salespeople, given high turnover in the industry and difficulty in motivating them for the long-term. To maximize control, all of her administration and employees are currently based in Beijing and travel as needed to service clients in places as widespread as Chengdu, Chongqing, Guangzhou, Hefei, Shanghai and Xian.

The result so far is that Ponty has imported four containers of wine, some 48,000 bottles, and sold most of it, a substantial amount given the winery’s annual production. And she has laid the basis for future business given her personal presence in China, enhanced by an ability to speak some Mandarin and her hands-on approach with customers.

“A lot of people know me now,” she says.

Cheers

When the Beijing warehouse of business-to-business supplier MQ Wines burned down in late 2010 just two years after the operation started, Claudia Masueger was surprised by the reaction of the staff.

“The Chinese co-workers were happy,” she says. “[They said] fire is a sign of good luck



“You need some cheaper wines for the distributors but you also need something people feel is rare and exclusive, and that means expensive.”

**Helene Ponty,
international
development,
Le Ponty Wines**

and it should bring lots of money in future.”

For Masueger, whose family has been in the wine business in Europe via MQ for four generations, the three months wait for new stock led her, China partner Simon Niu and the staff to create the idea of a wine shop chain called Cheers.

In a country where many shops push high-priced wines in ‘fancy’ surroundings (think barrels, dark wood trim and reproductions of antiques), the idea of Cheers is to provide a colorful venue with affordable wine for buyers aged 22 to 35 and earning rmb3000 (\$480.00) to rmb6000 per month. Affordable is key given that wine at the sixteen shops now operating in Beijing starts at rmb29 (\$4.68) per bottle.

“Most of our wines are offered below 100 RMB,” says Masueger of the portfolio of 45 options from the world’s major regions, as well as a few lesser known places such as Switzerland and Romania. “My family has been in the wine business for four generations, therefore we have very good connections and resources.”

She also stresses that Cheers uses a “neighborhood store concept”.

“People don’t like to carry wine bottles, as they are heavy, and a lot of young people travel by subway or bus as it’s difficult to get around by car and find parking spaces,” she says when explaining how she seeks shop space near work and residence hubs. “Customers can taste wines on the way home, carry one or two bottles with them or let it be delivered directly from the stores.”

That might not seem special, but Cheers offers added appeal beyond mere retail. It has tastings (“when you can explore different tastes, that’s when wine becomes fun”), seating in the bigger outlets (“to meet other wine lovers or hang out with friends for a drink”) and a marketing program that covers social media, theme parties and wine education videos (“in every store there is a TV where the videos are played”). She gets support from suppliers in the form of marketing budgets and free samples for tastings.

Cheers is expanding at a quick rate, with a half-dozen shops opening the last six months alone. The shops are given two to three months to either become profitable or close, with only two failing thus far. She talks of having 888 stores in China, a goal underpinned by a plan called ‘Cheers Partnership’ being rolled out in the next few months. It offers current employees, many of whom are not from Beijing, a chance to open shops in their hometowns.

“They are looking for good locations now,” she says. “Most of our staff is qualified but don’t have the money to start a store. Therefore we are looking for investors for our Cheers Partnership stores.”

If the reaction of the market is any indication, Cheers has a good model, since copycat stores are already appearing.

“It was such a big shock to me,” she says of one operation. “I was standing in a store which looks exactly like Cheers. They didn’t copy the name or the logo but everything else – the layout, price strategy, staff uniform, TV, wine descriptions, VIP forms, posters, even the marketing activities!”

She says her employees were proud, saying only successful products were copied. She points to those same employees as the reason why she believes her stores will win out, stating that in addition to wine knowledge they receive training in everything from customer service to accounting and receive monthly bonuses based on performance.

The success of her model, as well as that of Ryan and Ponty, will not only be finding the right formula for success in China, but also constantly staying ahead as others try to duplicate it. ■



**Claudia Masueger, CEO and founder,
Cheers Wines**