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THE LIQUOR MARKET IN CHINA

FLANDERS INVESTMENT & TRADE MARKET SURVEY

Market Study

THE LIQUOR MARKET IN CHINA

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INHOUD

1. DEFINITION AND TYPES OF LIQUORS

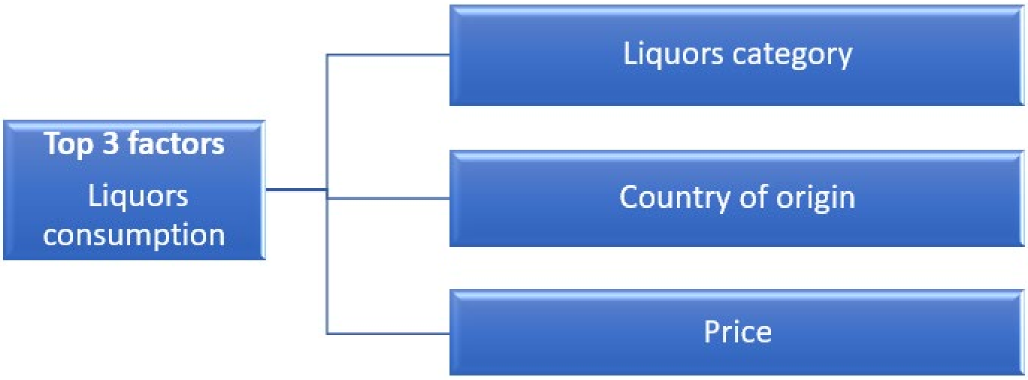
According to the National Standard of the People's Republic of China GB/17204-2008, Liquors or spirits (also distilled alcohol) are alcoholic drinks and made through fermentation, distillation or a blending process using grains, potatoes or fruits as raw materials. Liquors include Chinese liquors, brandy, whisky, vodka, rum, gin, tequila, milk liquor and other distilled liquors. The definition for each liquor type is as follows:

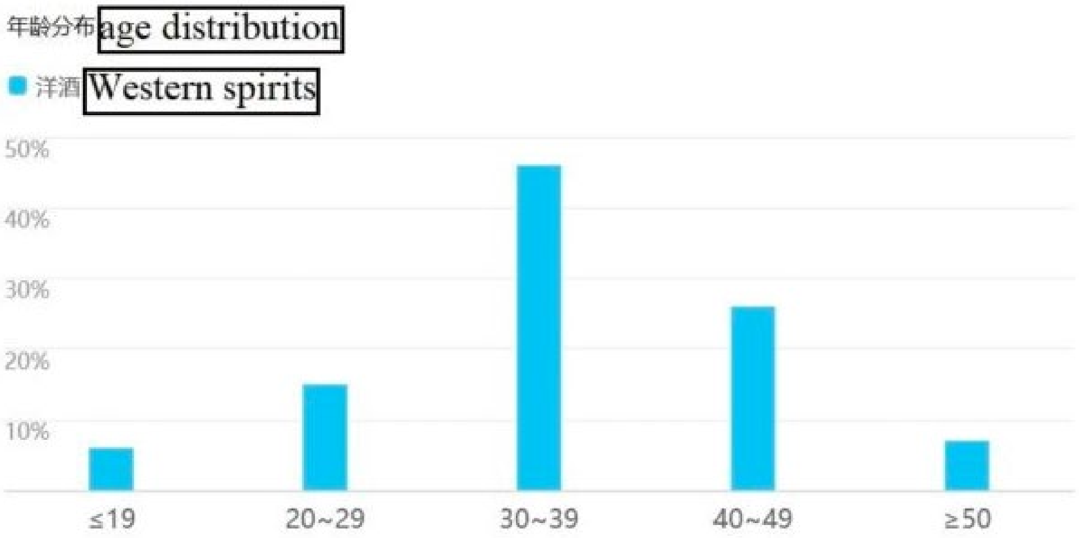
Liquor Types	Definition
Chinese liquors (Baijiu)	Made through cooking, saccharification, fermentation and distillation processes using cereal grains as raw materials and using Daqu, Xiaoqu or Guqu as saccharification and fermentation agents.
Brandy	Made through fermentation, distillation, aging and blending processes using fresh fruit or fruit juice as raw materials.
Whisky	Made through saccharification, fermentation, distillation, aging and blending processes using malt and grain as raw materials.
Vodka	Made through fermentation, distillation and other special refined processes using grains, potatoes, molasses and other edible crops as raw materials.
Rum	Made through fermentation, distillation, aging and blending processes using sugar cane juice or molasses as raw materials.
Gin	Made through saccharification, fermentation, distillation, and soaking Juniper using grain as raw materials.
Tequila	Made through fermentation of the sugars found from the blue agave plant once it has been cooked, the main sugar being fructose.
Milk liquor	Made through fermentation, distillation process using milk, whey and whey powder as raw materials.
Other distilled liquors	Other distilled liquors

2. WHO ARE THE DRINKERS AND HOW CHINESE DRINK WESTERN LIQUORS

2.1 WHO ARE THE LIQUORS DRINKERS

China is so large and the regional markets are highly fragmented for anyone to offer a one-picture-fits-all portrait of the liquors consumers in China, but one capturing trend is that due to urbanization and the widespread usage of the mobile devices, consumers are exposed to more brand choices and alternative buying options. Interestingly, among the highly wealthy sector of the market (average household net worth is USD 1.9 million), consumers who age between 30-40s are the most important age group for western liquors consumption in China, whose interests often involve music, automobile, outdoor activities, bars and gastronomy. Among them one third have studied abroad and are becoming the main pillar of the society. Unlike Baijiu, which has a wide gender gap with male drinkers outweighing female drinkers significantly, liquors in general has a balanced distribution between both genders. "liquors category", "country of origin", and "price" are the top 3 factors for liquors consumption, and 66% of the purchase are made offline versus 34% online for this consumer group.





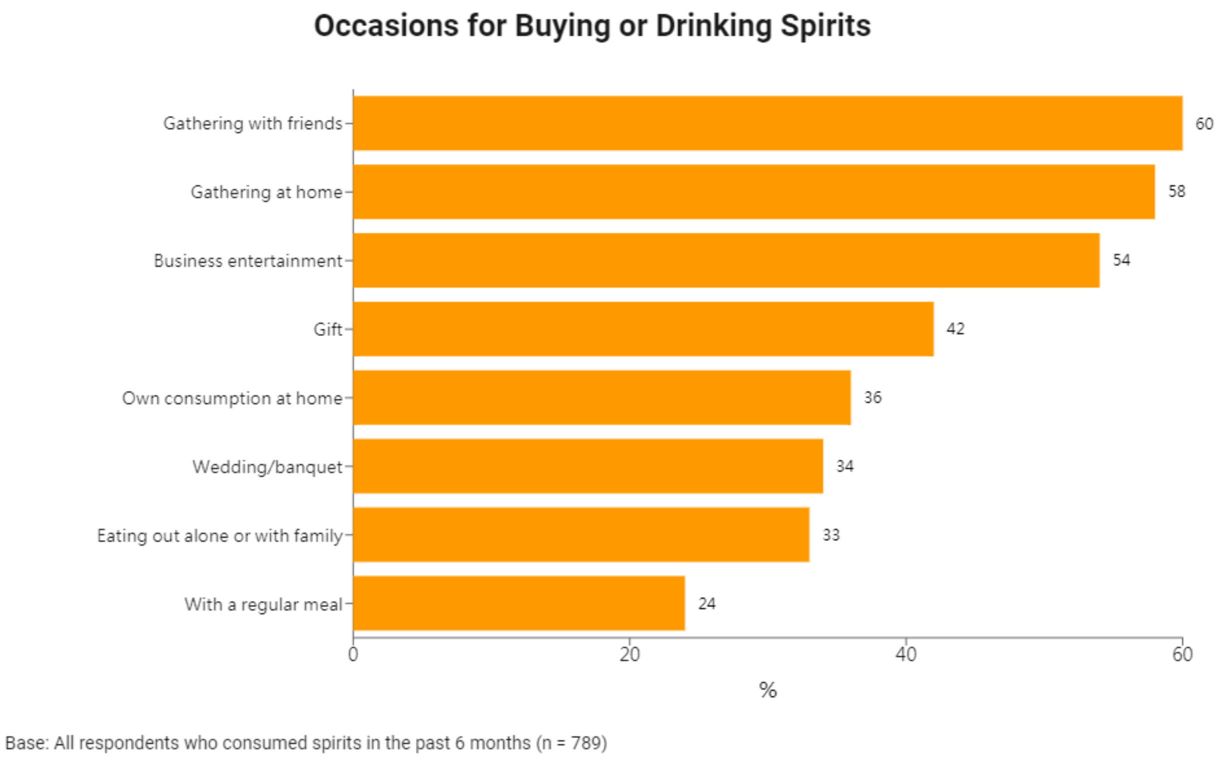
Source: Baidu index, consumers of Western spirits in China

2.2 HOW CHINESE DRINK WESTERN LIQUORS: COCKTAILS OR SHOTS

Liquors in China may be consumed differently than in the west. For Chinese Baijiu, it is almost always drunk straight. This method was not suitable to other western liquors for most Chinese consumers at the beginning because they were not accustomed to the flavors of western liquors, and therefore bars and night clubs mainly produced cocktails rather than serving shots. But currently, Chinese consumers are trying to take western liquors in the same way as Chinese Baijiu. Single malt Whisky, for example, is becoming a new favorite in bars as Scotch Whiskey becomes famous in the liquors market in China.

2.3 DRINKING OCCASIONS

Below survey found that consumers mainly drink liquors at gatherings and social networking events. The majority of respondents consumed liquors when going out with friends (60%), followed by gatherings at home (58%) and business entertainment (54%). By comparison, the proportions of own consumption at home (36%), eating out alone or with family (33%) and to go with a regular meal (24%) were lower. Evidently, consumers generally feel that drinking liquors is a social activity and such drinks can often improve the atmosphere of gatherings. One focus group participant said: “I find clubs and bars the most suitable venues for drinking liquors. Getting together with a few close friends at these venues is great fun." The views on appropriate venues for consuming liquors did not greatly differ between respondents of different gender, age, knowledge of spirits, or city of residence.



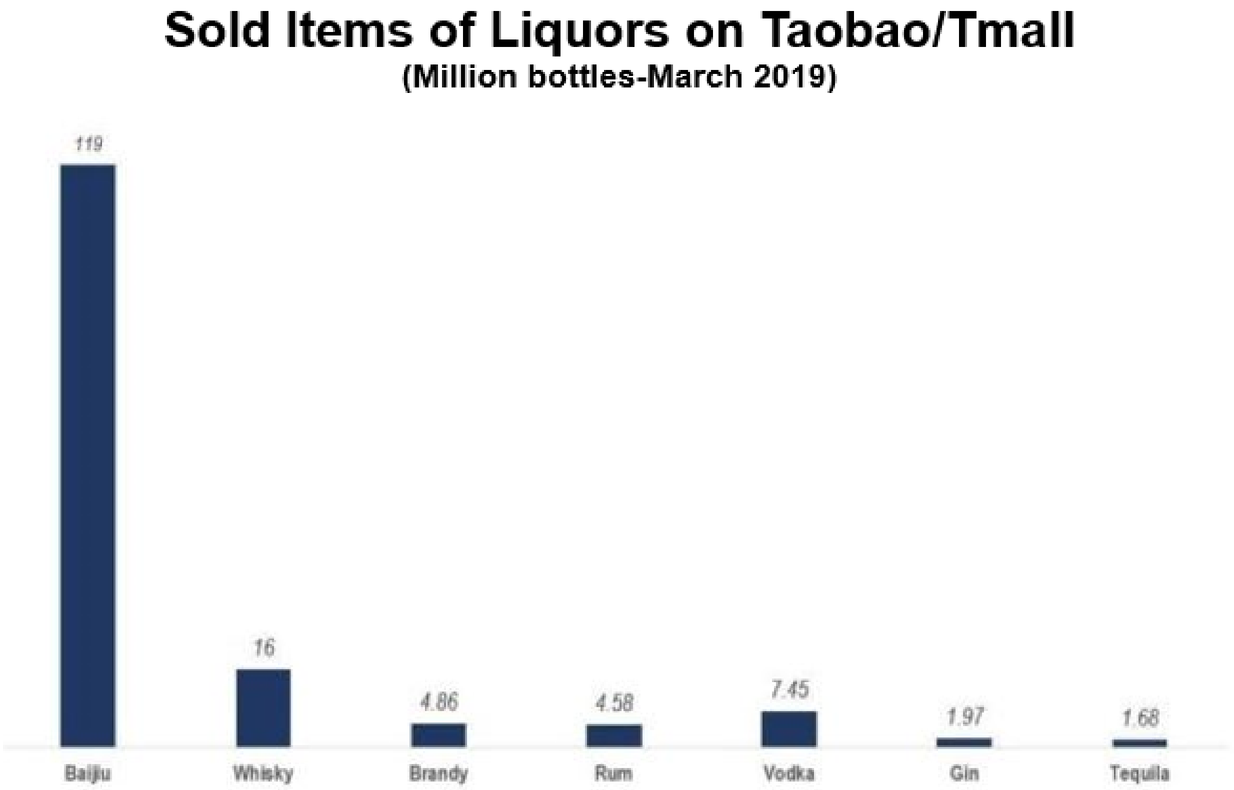
3. LIQUOR MARKET OVERVIEW

The liquor market in China is flourishing as the income level of Chinese consumers is increasing. As alcohol consumption in China increases, the Chinese alcohol market reached 1,136 billion RMB (175 billion USD) in 2019. Liquors make up a majority of the market, with Baijiu alone taking 65% market share. The imported liquors are expected to be worth USD 24 billion by 2021.

High-end liquors, such as Moutai, Chivas, and Martell, are common guests on Chinese tables. Besides Baijiu, the local liquor of China still dominates the Chinese liquor market; while western liquors like whiskey and brandy have more and more influence on Chinese consumers' alcohol choices. The rise of the country's middle-class population, as well as the increasing incomes, have made imported spirits and premium brands increasingly affordable. Consumption of imported spirits is highest in first tier cities like Shanghai, Beijing, Guangzhou, and Shenzhen. Accessibility and awareness are high in these local markets.

Western alcohol culture is becoming popular among the younger generation, and the rise of e-commerce platforms (e.g., Taobao, JD, etc.) enable western liquor brands to enter China's alcoholic beverage market more easily.

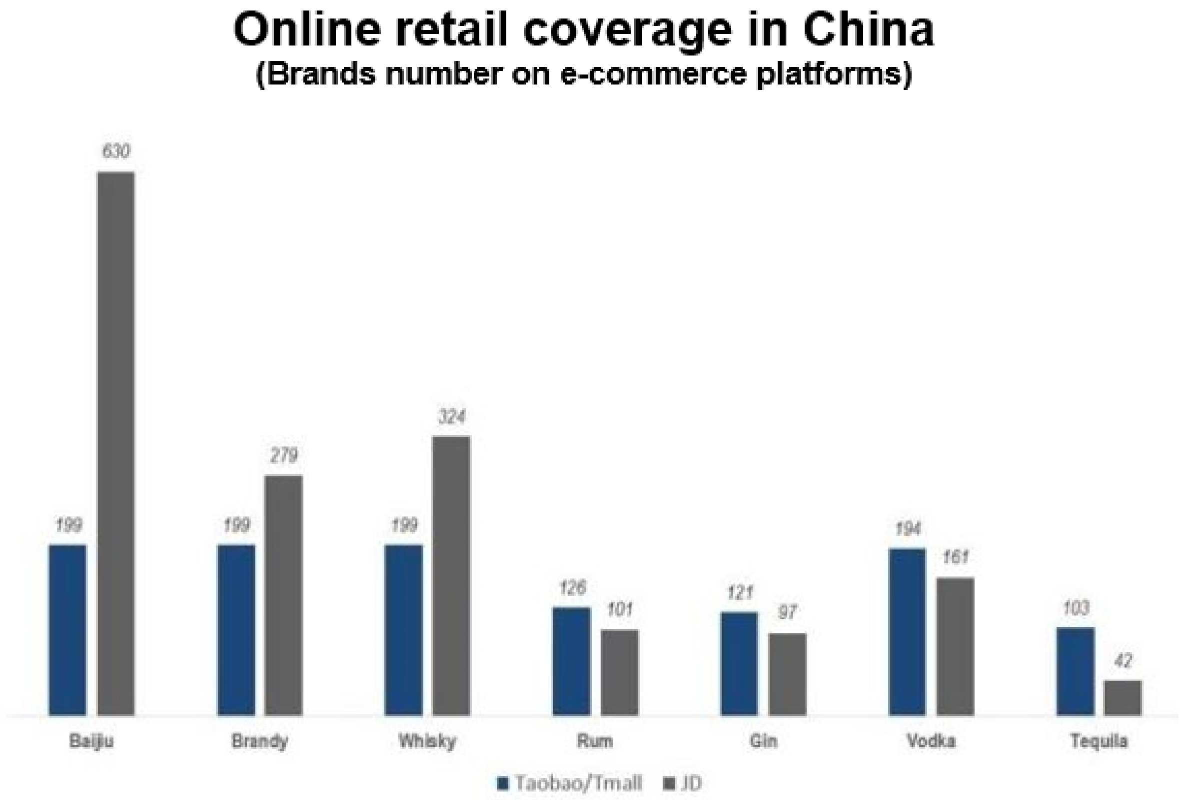
3.1 MARKET SIZE



There are several kinds of liquors are on sale in China, respectively are Chinese Baijiu, Whisky, Brandy, Vodka, Rum, Gin, and Tequila. According to the data on Taobao and Tmall, which are the e-commerce platforms run by Alibaba Group, Chinese Baijiu sold most bottles in China compared to the other spirits. Considering the representations of Taobao and Tmall, it is clear that Chinese Baijiu is still the beverage of choice in the spirits market in China.

Another thing to be noticed is that Whiskey performs better than other western alcoholic beverages in China: about 2 times more than Vodka, 3 times more than Brandy and Rum, and 10 times more than Gin and Tequila.

3.2 CONSUMPTION OF LIQUORS IN CHINA



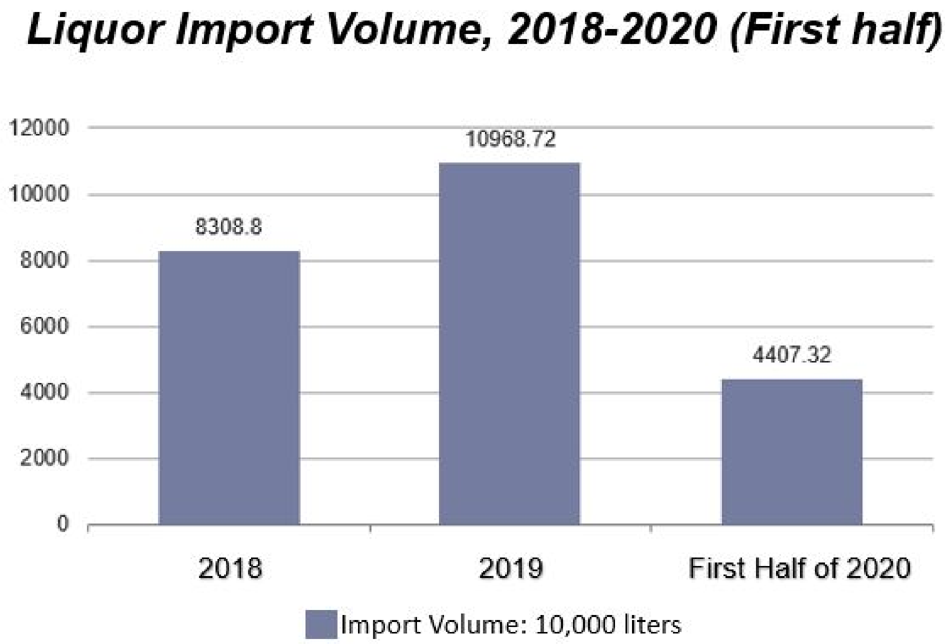
Taobao/Tmall & JD liquors sold on e-commerce platforms in China

Liquor brands sell their products mainly through Taobao/Tmall and JD.com as online channels. These brands set up their official stores on the platforms and attract consumers by multiple discount activities. Some of these brands also build up their own e-commerce platforms or utilize their websites as part of their online sales channels. Among these platforms, JD.com is the most prevailing online channel for liquor brands. Baijiu brands on JD.com are 630, which is about 3 times more than those on Taobao/Tmall. Brandy and Whiskey, the other two prevailing liquors in China, both have more brands in JD.com than Taobao/Tmall as well.

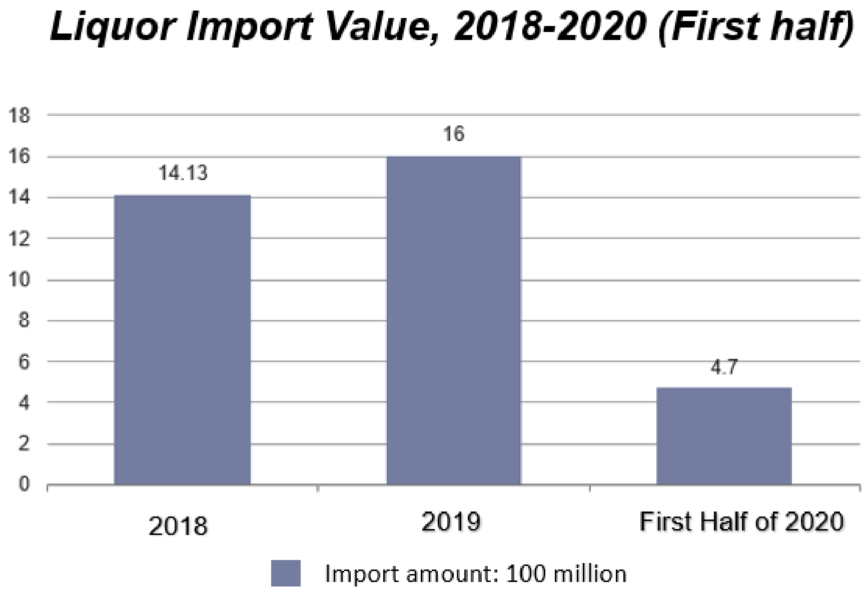
3.3 IMPORTS STATUS ANALYSIS

According to the data of China customs, from January to December in 2019, China's imports of liquors reached 110 million liters, a year-on-year increase of 32%; Imports amounted to US $1.6 billion, a year-on-year increase of 13.4%, accounting for 32% of the total alcoholic drink imports. In the first half of 2020, the import volume of liquors in China was 44.07 million liters, accounting for 27.7% of the total import volume of alcoholic drinks.

3.3.1 Import Volume

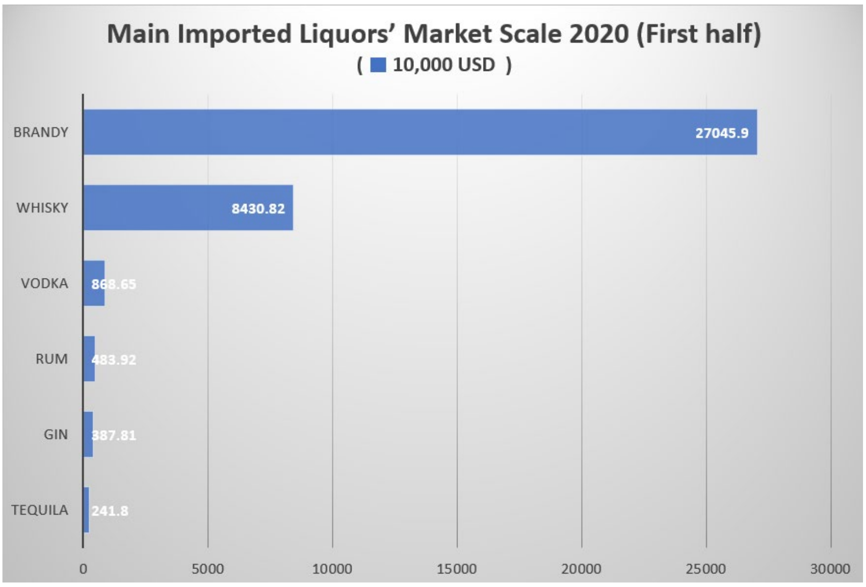


3.3.2 Import Value

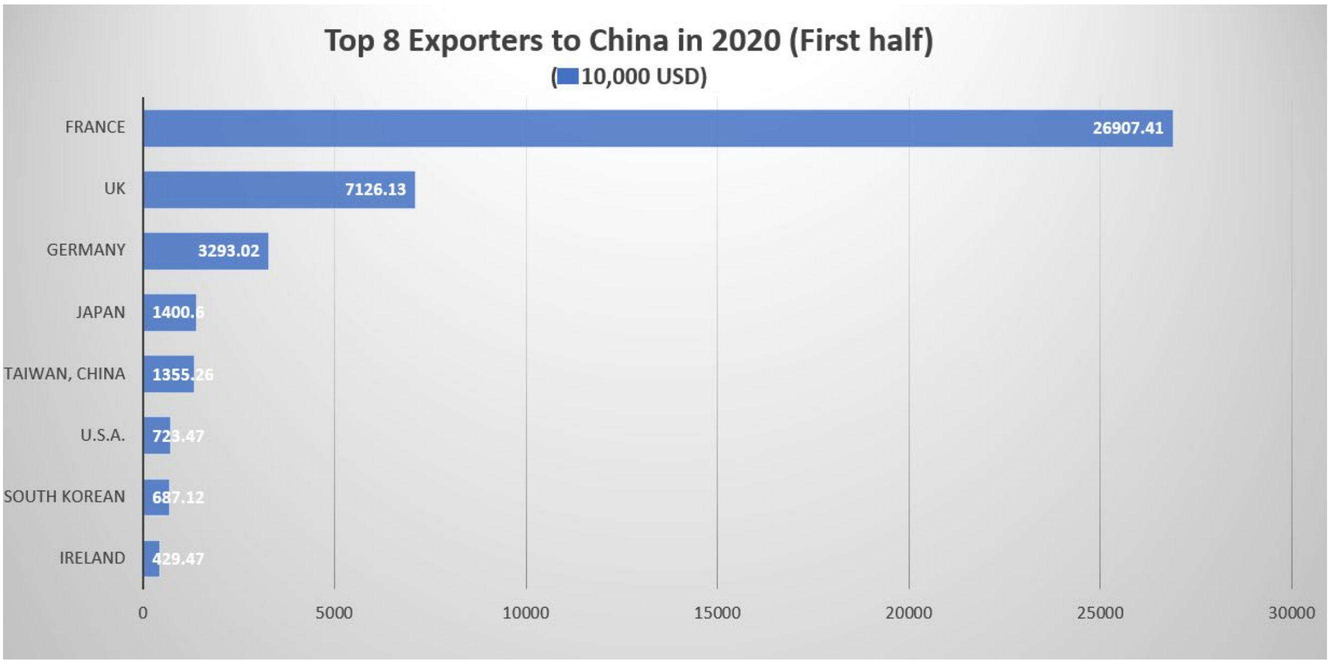


3.3.3 Import Scale

In the first half of 2020, China imported USD 270.459 million of brandy, USD 84.3082 million of whisky, USD 57.3922 million of liqueurs and cordials, USD 8.6865 million of vodka and USD 4.8392 million of rum.



3.3.4 Top Exporters to China



France is the top exporter to China. In the first half of 2020, France and UK occupied 72% of the market share.

4. SEGMENTATION OF LIQUORS

4.1 THE LOCAL LIQUOR-BAIJIU

4.1.1 Baijiu, the Backbone of China's Drinking Culture

Although Baijiu is little known outside of China, it is still the nation's traditional liquor with a strong cultural root that could be traced back as early as 6000 years ago. To put it in perspective, 19.5% of the overall alcohol consumption in China in 2017 came from Baijiu, compared with 5.6% in other liquors, and only 2.8% in wine.

4.1.2 Market Share of High-end Baijiu Brands and Internationalization of Baijiu

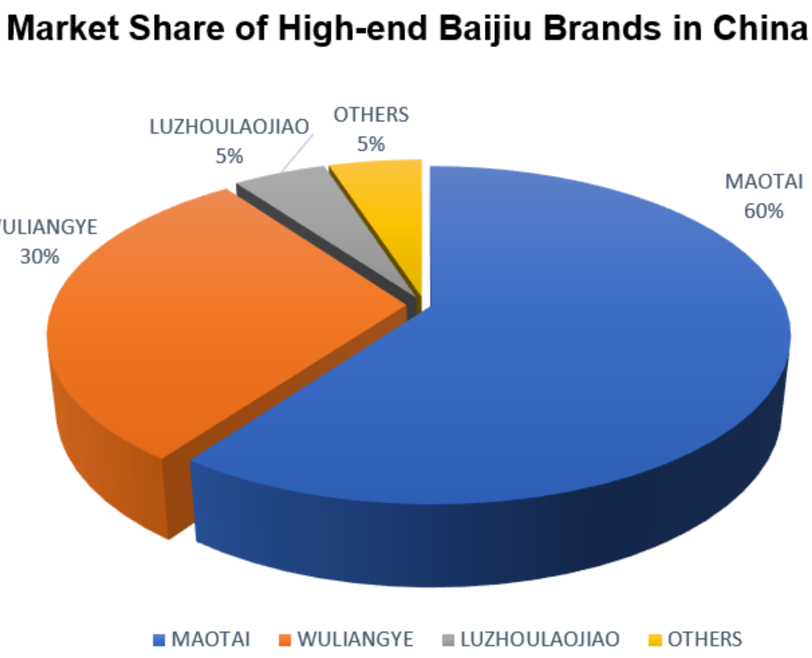
Meanwhile, we see a high brand concentration for the super-premium sector of Chinese Baijiu as 99% of the market in this sector is dominated by Maotai (over 60%), Wuliangye (30%), and Guojiao 1573 (5%, a high-end brand by Luzhou Laojiao), the three mega brands of Chinese Baijiu, please refer to the pie graph on page 14. This super-premium movement is also reflected in the overseas markets for Baijiu: in 2018, the export value for Baijiu reached USD 655 million, a nearly 40% growth compared to the previous year and this is partially due to the 'internationalization' carried out by the premium and the super-premium Baijiu brands. For instance, in October 2018, Luzhou Laojiao sealed a sponsorship deal with Australia Open and became their associate sponsor for the next five years. In September 2018, Fenjiu Group announced that the construction of a production site capable of producing 600 tons of light aroma Baijiu was launched in Canada, not to mention the Group's sponsorship for the 2019 Spirits Selection by Concours Mondial de Bruxelles.

MAOTAI

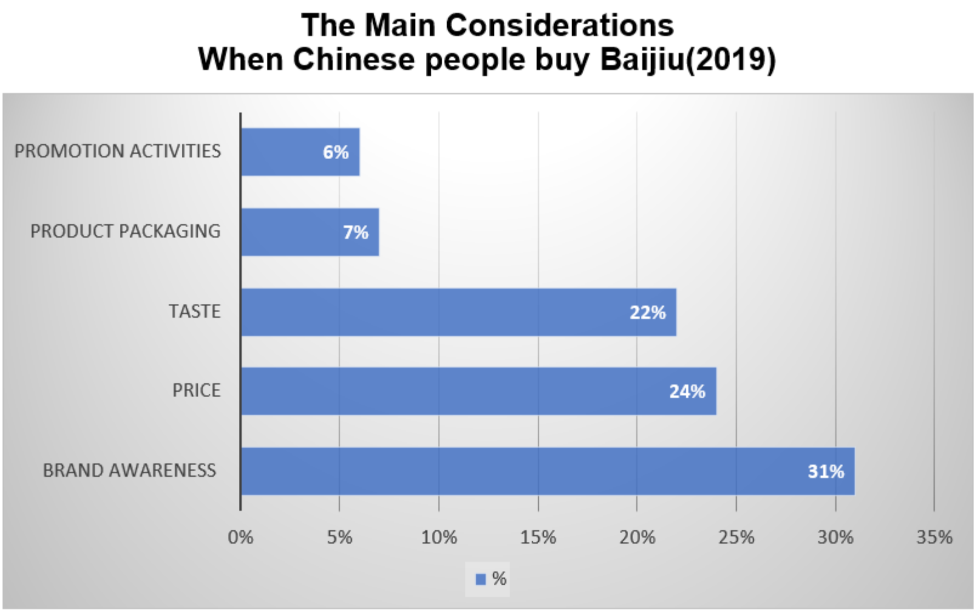
WULIANGYE

LUZHOU LAOJIAO

A Fenjiu tasting/dinner gala was held in Brussels, Belgium (photo: Vinopres S.A.)



4.1.3 Chinese Consumers' Purchasing Considerations (BAIJIU)

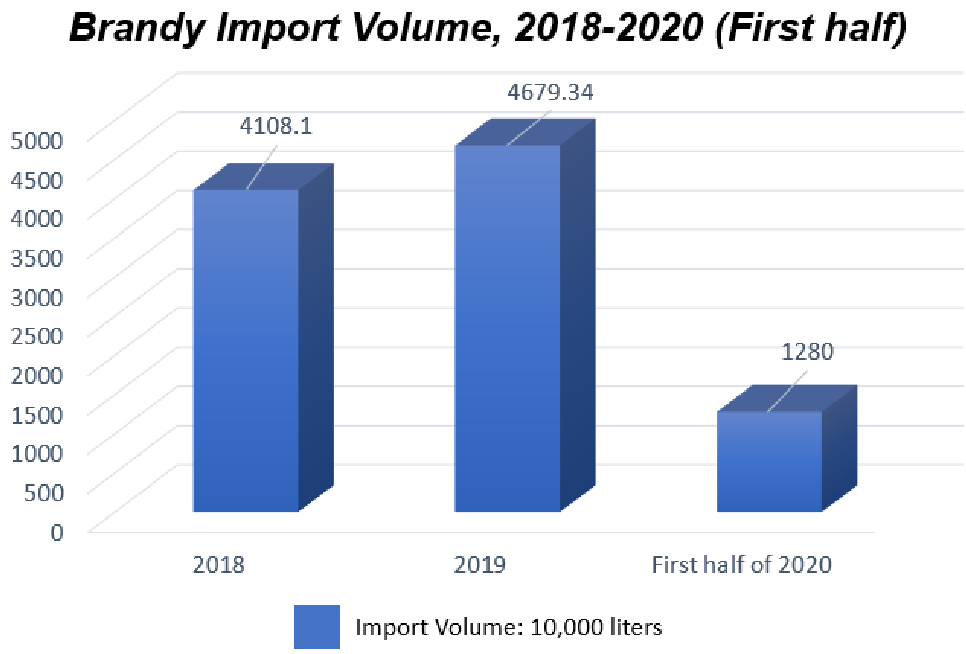


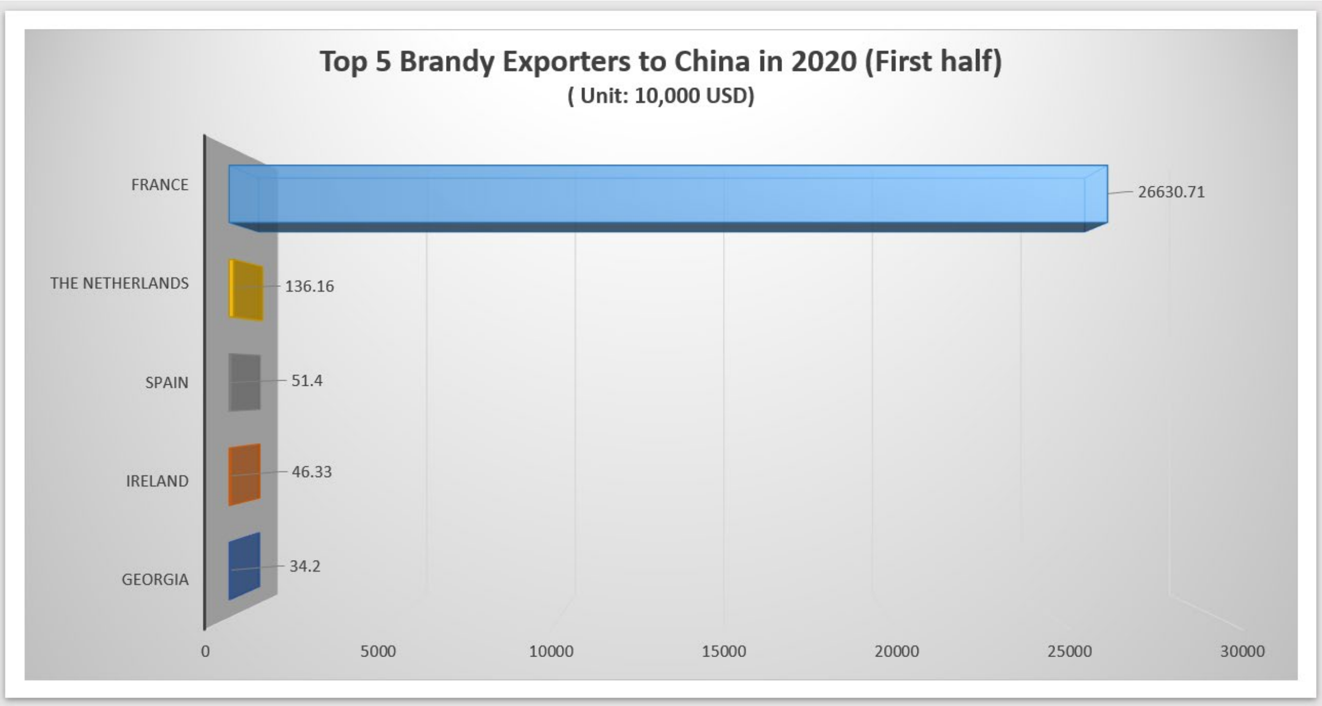
The bar graph above shows the preference of Chinese Baijiu consumers. It seems that **the brand** and **the price** are the main aspects when Chinese consumers consider most when they buy Baijiu. This can also explain why Moutai has the biggest market share in Chinese spirits: as Baijiu is already the most popular liquor in the Chinese liquors market, Moutai is also in the leading position of Baijiu market in China as it has both high price and low price products, which allow Moutai to keep its brand awareness and give diverse price choices to consumers.

4.2 BRANDY

4.2.1 Brandy Import Figures

In western countries, fruit liquor, which is made from fruit through fermentation, distillation and aging, is collectively called brandy. In the first half of 2020, China's brandy import volume was 12.8 million liters, with the import value of 270 million US dollars, accounting for 57.5% of the total import volume of liquors.





In the first half of 2020, China imported 12.468 million liters of brandy from France, accounting for 97% of the total, and the import amount reached 266.3071 million US dollars.

4.2.2 Competition analysis of Brandy in China

Brands	Countries of origin	Sales on Tmall/Taobao in March 2019	Top seller price on Tmall	Price range on Tmall/Taobao (RMB)
ZHANGYU (张裕)	China	5,008 bottles	45 RMB	30 to 2,588
Rémy Martin (人马头)	France	4,051 bottles	269 RMB	52 to 22,880
Martell (马爹利)	France	4,237 bottles	249 RMB	49 to 38,888
Passton (派斯顿)	France	4,419 bottles	128 RMB	69 to 21,000

Source: Brandy sales on Taobao/Tmall

The tables above shows the Brandy market in China is occupied by French Brandy brands, which enjoy a long history of Brandy production and decent reputation. Their high-end images, good quality, and appealing package designs attracted a large number of Chinese consumers.

Brandy brands in the Chinese liquors market utilize digital activities to advertise themselves and boost Brandy spirits sales in China. Martell, a famous Brandy brand, makes its advertisement by cooperating with e-commerce platforms and social media to build up its high-end image, such as participate in Tmall's "Super Brandy Day" and shoot videos for ads.

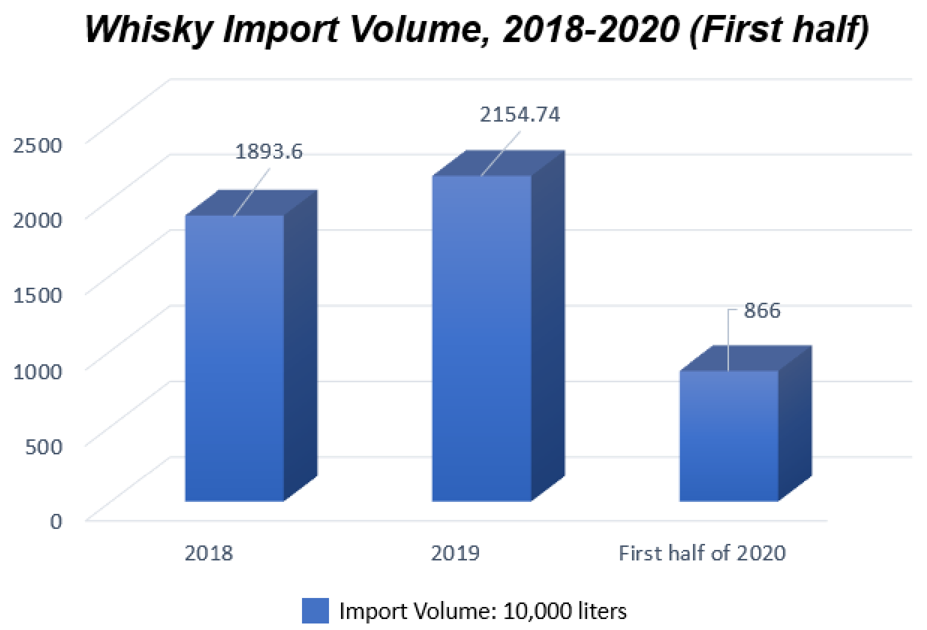
One thing noticeable is that Chinese Brandy brand Zhangyu also emerges and accounts for the most market share in the Brandy market in China. It seems that Chinese domestic alcoholic beverage manufacturers are also entering the Brandy market in China to compete with foreign brands. However, as Zhangyu shows, Chinese Brandy products are at a low price to win the market share compared to French counterparts.

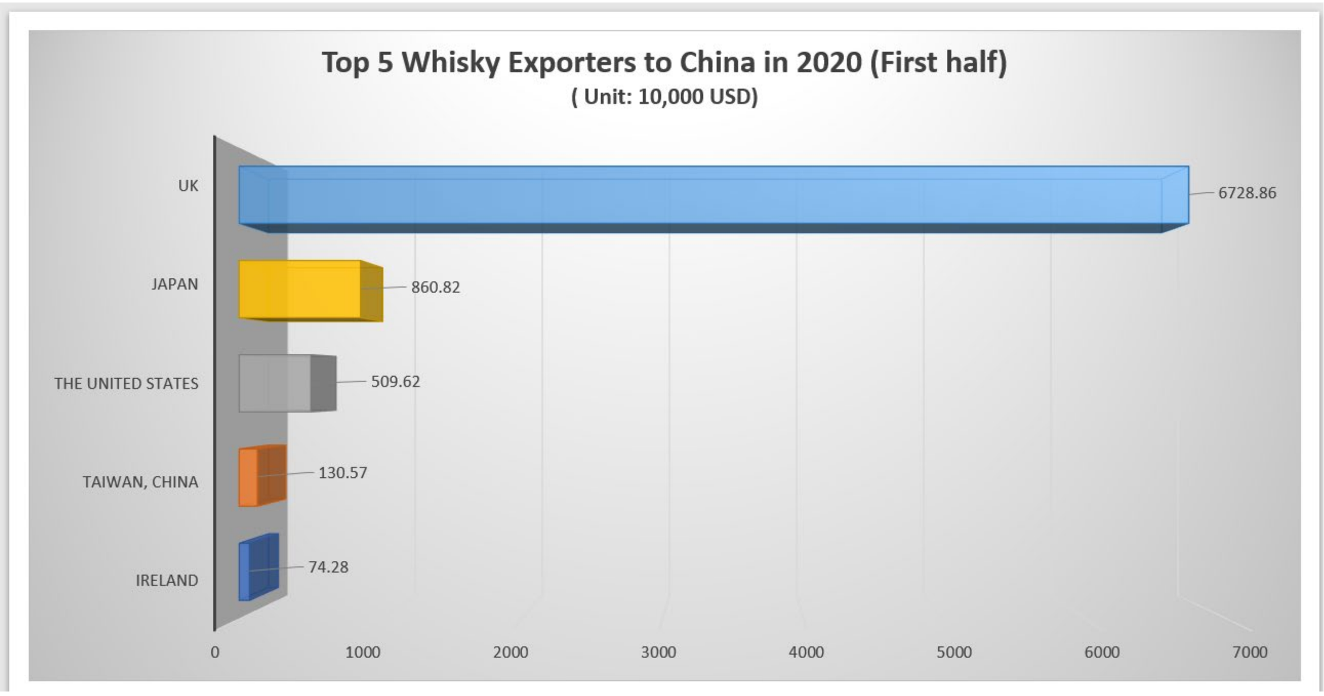
4.3 WHISKY

4.3.1 Whisky Import Figures

Below chart shows the recent three years import volumes of whisky. In the first half of 2020, China imported 8.66 million liters of whisky, with an import value of 84.31 million US dollars, accounting for 17.9% of total liquors imports.

The United Kingdom is the top exporter of whisky in Chinese market. In the first half of 2020, China imported 6,586,300 liters of whiskey from the United Kingdom, with an import value of 67,288,600 US dollars.


Whisky Import Volume, 2018-2020 (First half)
2500
2000
1500
1000
500
0
1893.6
2154.74
866
2018
2019
First half of 2020
Import Volume: 10,000 liters


Top 5 Whisky Exporters to China in 2020 (First half)
(Unit: 10,000 USD)
UK
JAPAN
THE UNITED STATES
TAIWAN, CHINA
IRELAND
6728.86
860.82
509.62
130.57
74.28
0
1000
2000
3000
4000
5000
6000
7000

4.3.2 Competition analysis of Whisky in China

Brands	Countries of origin	Sales on Tmall/Taobao in March 2019	Top seller price on Tmall	Price range on Tmall/Taobao (RMB)
Johnnie Walker (尊尼获加)	UK	20,511 bottles	280 RMB	69 to 28,500
Chivas (芝华士)	UK	14,078 bottles	139 RMB	18 to 3,518
Suntory (三得利)	Japan	4,014 bottles	158 RMB	85 to 29,888
JACKDANIELS (杰克丹尼)	USA	21,697 bottles	168 RMB	59.9 to 5,999

Source: taosj "Whisky sales on Taobao/Tmall"

UK (Scotland), Japan and the USA are the original countries of popular brands on Taobao/Tmall. Due to a good reputation, flavor, high-end images, and fashionable package design, their liquors sales in China are quite high.

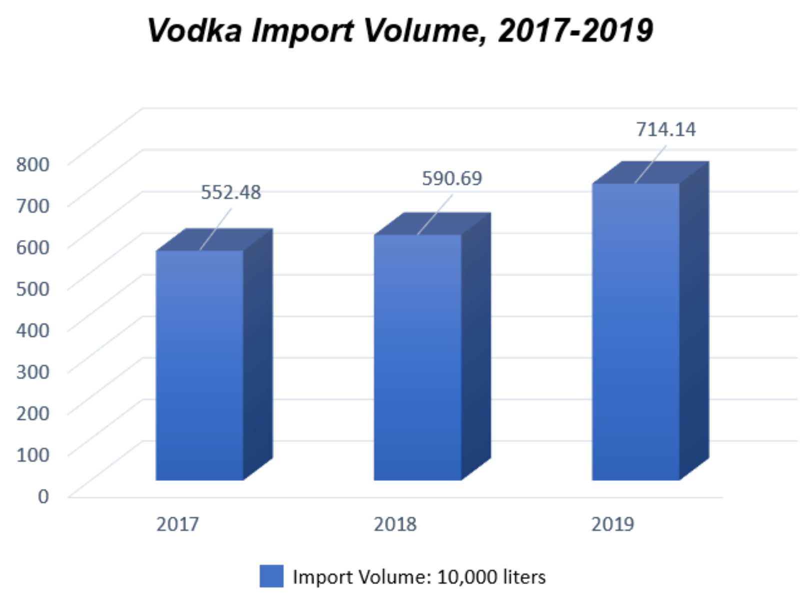
It is still a very niche market for Chinese whisky. While Chinese whisky brands exist like Gaolong Liquor, Daiking or Taiwanese brand Kavalan, they are eclipsed by the popularity of western whiskys. While domestic brands remain largely unknown mainly because a lack of brand recognition, some Asian brands have managed to make their place on the Chinese liquor market. The most popular Asian whisky brands selling on Taobao and Tmall are Japanese, such as Yamazaki, Nikka or Suntori. However, like Chinese whisky brands, their sales are still relatively low compared to western brands.

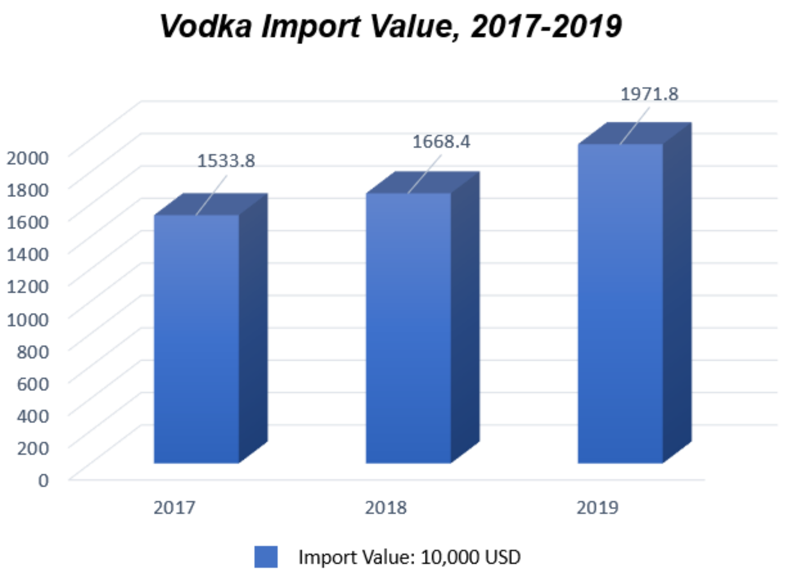
With the popularity of Whisky, Scotch Whisky exposes more to Chinese liquors consumers, which creates a new submarket of the Whisky market in China: single malt Whisky. According to the data released in 2018 by SWA (Scotch Whiskey Association), "a record number of 2,026,779 bottles of single malt 70cl Scotch were exported to China in 2017, a surge of 190 percent compared to five years ago, and equivalent in value to 20.1 million pounds ($25.3 million)." China Daily reported. It shows that the exporting alcohol to China of SWA will increase, and single malt Whiskey is expected to grow in sales and stimulate the growth of the Whiskey market in China. First-tier cities like Beijing, Shanghai, Guangzhou, and Shenzhen have bars specialized in providing single malt whiskey to Chinese consumers.

4.4 VODKA

4.4.1 Vodka Import Figures

According to China customs statistics, from 2017-2019, import volumes of vodka to China are 5,524,800 liters, 5,906,900 liters and 7,141,400 liters, with import amounts of 15.338 million US dollars, 16.384 million US dollars and 19.718 million US dollars respectively. Before the COVID-19 pandemic, the overall import volume and amount showed an upward trend.





4.4.2 Competition analysis of Vodka in China

Brands	Countries of origin	Sales on Tmall/Taobao in March 2019	Top seller price on Tmall	Price range on Tmall/Taobao (RMB)
Absolut Vodka (绝对伏特加)	Sweden	19,568 bottles	109 RMB	24 to 1,099
Skyy (深蓝)	USA	15,007 bottles	49 RMB	32 to 350
Smirnoff (斯米诺)	Russia	7,066 bottles	44 RMB	25.5 to 263
Spirytus (生命之水)	Poland	8,665 bottles	69 RMB	48 to 432

Source: taosj "Vodka sales on Taobao/Tmall"

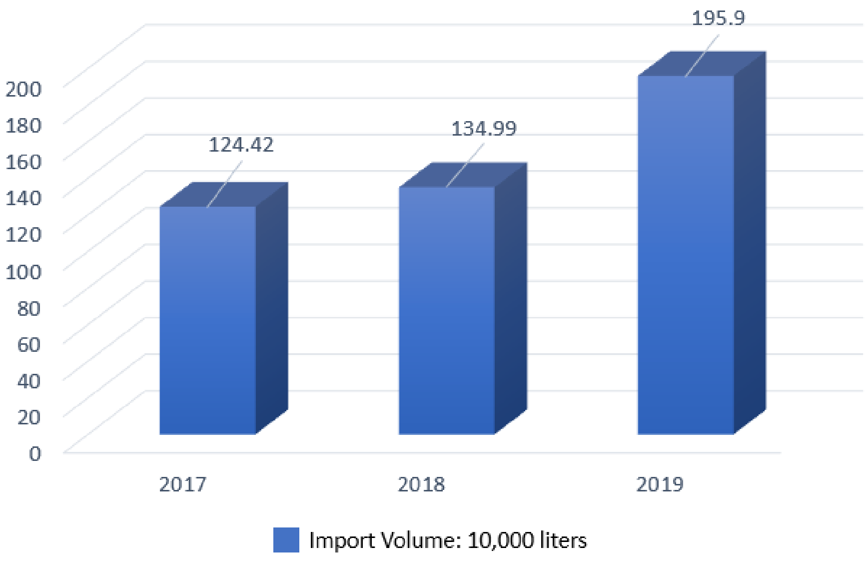
The Vodka market in China is led by Absolut Vodka produced in Sweden, followed by Skyy produced in the USA. The reason that Absolut Vodka has led the Vodka market in China for many years is it cooperated tightly with different sectors. In the past years, Absolut Vodka considered what was popular and utilized the favorite element to decorate its products and create an appealing advertisement. By the upscale images, pleasant taste and creative advertising, Absolut Vodka has been the most popular vodka brand and attracted many high-income consumers in the Vodka market in China, although its price is relatively high.

4.5 GIN

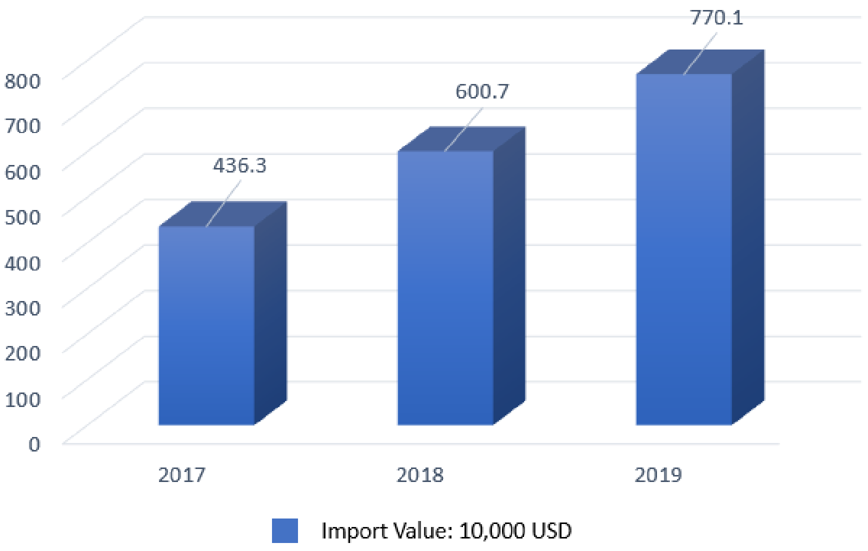
4.5.1 Gin Import Figures

According to China customs statistics, from 2017-2019, import volumes of gin to China are 1,244,200 liters, 1,349,900 liters and 1,959,000 liters, with import amounts of 4.363 million US dollars, 6.007 million US dollars and 7.701 million US dollars respectively. Before the COVID-19 pandemic, the overall import volume and amount showed an upward trend.

Gin Import Volume, 2017-2019



Gin Import Value, 2017-2019



4.5.2 Gin Market in China

Gin is a relatively new category generating much excitement, particularly from China's younger generation. Although it has been available in the country for more than two decades now, many consumers still have difficulty differentiating the liquor from other white liquors like baijiu.

While gin makes up for only a fractional share of the Chinese liquor market, importers and distillers are confident of its future in the country. The alcohol's versatility taps into the Chinese's growing desire for lighter, fresher drinks. The consumers are becoming adventurous, opening themselves to liquors other than the usual whisky or brandy.

Successful gin brands in China, like **Hendrick's** and **Monkey 47**, have learned to adapt their offerings and strategies to suit the preference of their target consumers. For Hendrick's Gin, the unusual infusion of cucumber and rose resonates well with the Chinese. Its Midsummer Solstice with sweet and fruity flavors are popular, especially among the female drinkers.

Monkey 47 is one of the most expensive brands on Chinese market at about 550 RMB a bottle. It is also the first of its category to be stocked at premium supermarkets in the country. To better reach the consumers, it conducts master classes for bartenders. Monkey 47's packaging and design also send a strong message with regards to shape and color.

Some gin importers have adapted their products to the Chinese market by tweaking their ingredients. Traditional dry gins, those with juniper as the predominant flavor for example, can be too foreign to a Chinese consumer with no experience with the spirit. Those with more modern, softer flavor profiles have better chances of doing well in the market.

The London Distillery offers fully organic products like Dodd's Gin which is well-received by younger Chinese drinkers. The company joined forces with Gotham East, a Shanghai trading company, to create a custom gin that features China's flavors, ingredients and aromatics.

Gin is a more complicated to sell in China, as it is not widely recognized like whisky and Cognac. As more and more Chinese pursuit premium, hand-crafted tastes in their alcohols, opportunities are opening to many distillers. Gin is an exciting category that has been gaining China's attention in the past decade. Based on the rising imports and sales, it will get more popular in the near future.

5. RETAIL CHANNELS FOR CHINA'S LIQUORS MARKET

Sales of liquor in China is mainly through on-trade and off-trade channels. On-trade channels are composed of hotels, restaurants, clubs and bars. Off-trade channels are composed of supermarkets, premium food stores, convenience stores and independent retailers.

5.1 ON-TRADE CHANNEL

5.1.1 Hotels

According to National Hotel statistical management system, in the second quarter of 2020, China had over 9,923 hotels including;

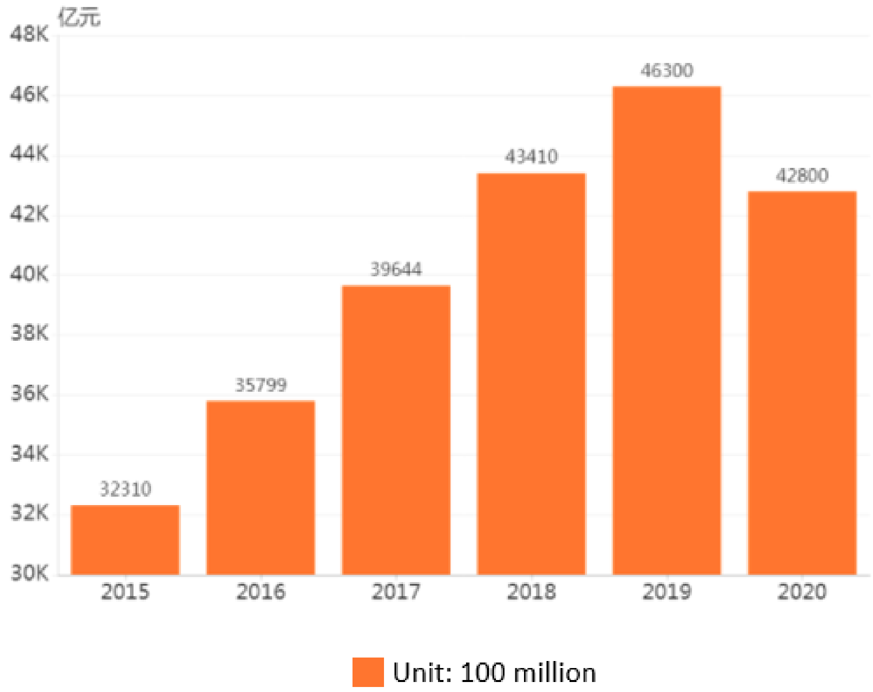
- 850 five star hotels
- 2,564 four star hotels
- 4,819 three star hotels
- 1,630 two star hotels
- 60 one star hotels

Hotels with three stars and above tend to have bars, Chinese restaurants and sometimes Western restaurants.

5.1.2 Restaurant

According to research, from 2015 to 2019, the revenue of China's catering industry continued to increase and the market scale has been expanding continuously. In 2020, due to the impact of the epidemic, the income of China's catering industry was 4.28 trillion RMB, 8% shrinking compared with 2019.

Revenue of China's Catering Industry 2015 - 2020



Top 10 Chinese Catering Enterprises in 2018

Headquarters in China	Chinese Name	English Name	Website	Sells Alcohol
Shanghai	百盛中国控股有限公司	YumChina	www.yumchina.com	No
Shanghai	金拱门（中国）有限公司	Mcdonalds	www.mcdonalds.com.cn	No
Sichuan	海底捞国际控股有限公司	Haidilao Hotpot	www.haidilao.com	Yes
Hebei	河北千喜鹤饮食股份有限公司	Hebei Qianxihe	www.qxh.com.cn	Yes
Inner Mongolia	内蒙古西贝餐饮集团有限公司	Inner Mongolia Xibei	www.xibei.com.cn	Yes
Beijing	呷脯呷脯餐饮集团有限公司	Xiabu Xiabu	www.xiabu.com	Yes

Shenzhen	深圳中快餐饮集团有限公司	CSCDH	www.zkcyjt.com	Yes
Shanghai	汉堡王（中国）投资有限公司	Burger King	www.bkchina.cn	Yes
Sichuan	四川香天下餐饮管理有限公司	Sichuan Xiangtianxia	N/A	Yes
Guangdong	东莞市鸿骏膳食管理有限公司	Dongguan Hongjun	www.dghongjun.com	No

5.1.3 Clubs and Bars

Clubs and bars sell alcoholic drinks. Bars include bars located in three, four and five-star hotels.

The following table includes the top 10 bar chains in China in 2019.

Top 10 Bar Chains in 2019

Headquarters in China	Chinese Name	English Name	Website
Guangzhou	SOHO 苏荷酒吧	SOHO Bar	www.sohobar.com.cn
Shenzhen	本色	True Color Bar	www.truecolorclub.com
Shanghai	特美时	MUSEM Bar	www.museshanghai.com
Shanghai	N/A	MYST	N/A
Shanghai	诺亚方舟	LINX Royal Club	N/A
Beijing	拿铁	LATTE Bar	www.lattebar.com
Beijing	爱乐	ElementsClub	N/A
Chengdu	苏格缪斯酒吧	S.MUSE Bar	www.smuseclub.com
Zhuhai	激情百度	Boiling100 Bar	www.boiling100.com
Chengdu	斯贝斯	SPACE CLUB	N/A

5.2 OFF-TRADE CHANNEL

The main off-trade channels in China for alcoholic drinks are supermarkets and independent stores.

5.2.1 Hypermarkets

Hypermarkets are large retail stores that offer a wide variety of products such as groceries, electrical appliances and clothing. The business model for hypermarkets tends to focus on high-volume sales with low profit margins.

According to the China Chain Store & Franchise Association's annual report in 2019, following hypermarkets, such as CR Vanguard, RT-MART, Walmart, Carrefour etc. are amongst the largest operators in China.

The strong positioning of hypermarkets in the grocery sector enables them to charge high amounts for contract fees, entry fees, logistics and advertising fees. Well-known and successful brands always will to pay these fees for having their products on shelves. For smaller brands, partnering with the local distributors will be more efficient for accessing to hypermarkets.

Carrefour in Beijing

5.2.2 Supermarkets

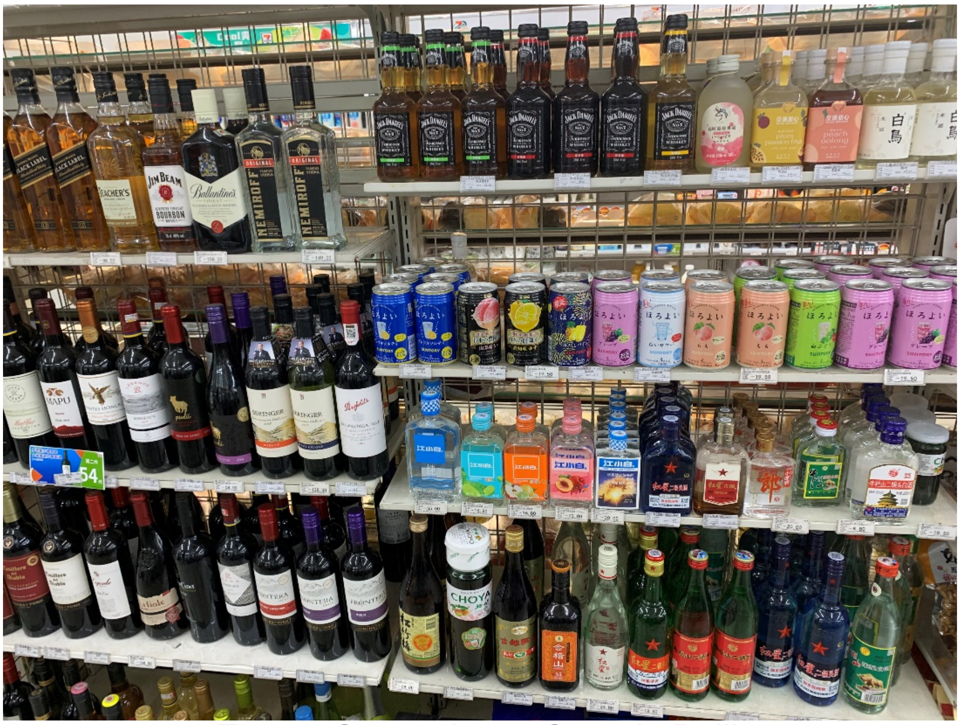
Supermarkets normally have large grocery stores offering a wide variety of food and household products, but offer a fewer product items than hypermarkets.

China has a large number of supermarkets chains including Lianhua and Yonghui, which operate nationally. Other retailers, such as Wushang in Wuhan and Hongqi in Chengdu, operate regionally. Supermarkets tend to stock products manufactured in China and provide less imported items. Price-sensitive shoppers tend to be the target consumers.

Yonghui Supermarket in Beijing

5.2.3 Convenience Stores

Convenience stores are small and sells with a limited range of daily-consumed items, such as cigarettes, milk, bread, snacks, alcoholic beverages and other FMCGs. Convenience stores tend to be located near residential areas and business centers, the products are normally sold with higher prices than conventional supermarkets and hypermarkets. The number of convenience stores in China has been kept increasing gradually in China. At this moment, foreign operators such as Family-Mart and 7-Eleven dominate the sector in first-tier and second-tier cities of China, but facing fierce competition by Chinese domestic brands, such as Bianlifeng, Easyjoy, uSmile etc.



7-Eleven Convenience Store in Beijing

5.2.4 Speciality Stores

Tabaco and alcohol speciality store is the retail outlet focusing on selling a tobacco and alcohol products and associated items. Several well-known Chinese alcohol brands have speciality stores in cities across China. Such as Moutai (a famous brand of baijiu) has more than 1,000 speciality stores in China. According to Baidu Index, there were about 744 specialized tobacco and alcohol stores which provide liquor in Shanghai.

Speciality store in Beijing

5.2.5 Premium Grocery Stores

Over the past decade, supermarket operators have been opening a large number of premium stores to cater the increasing wealthy consumers in China.

Incidents and scares regarding the safety and quality of food grown or manufactured in China have undermined confidence among many consumer groups. Premium grocery stores have responded to this by offering a wider range of imported goods and higher-priced products, targeting residents in urban areas with high income levels and greater spending power, who are often willing to pay more for safer, higher-quality products.

Premium grocery stores tend to be located near business centers and hi-end shopping malls of the first and second-tier cities of China. Premium grocery stores include China Resources Vanguard's Ole', TASTE and GREAT, Beijing Hualian Group's BHG Market Place and Yonghui Superstore's BRAVO YH, Hema Fresh and Jenny Lou.

Premium grocery stores are increasingly becoming popular with wealthier Chinese consumers. Some stores state that 70–80% of the products they sell are imported. Consumers who shop regularly in hypermarkets and premium grocery stores are more open to new products.

BHG Premium grocery store in Beijing

5.2.6 Group Buying

In recent years, group buying in China has gradually changed the consumption behavior of many Chinese consumers, by which consumers can unite to increase their bargaining power.

Actually, it has been the foundation to the success of Pinduoduo, one of the e-commerce giants of China, which grows very fast in recent 2 years. The model adopted by Pinduoduo also caused Alibaba, JD, Meituan and other e-commerce giants to invest heavily in the sector of group-buying for its enormous developing potentiality.

More and more Chinese consumers accept the online shopping, which is also one of the reasons for the success of group buying. Some brands may see it as a platform for increasing awareness, encouraging trial and shifting stock, but at this stage, group-buying remains a pricing game and is not appropriate for many foreign brands whose strategies are less based on lowering prices.

5.3 METHODS OF APPROACHING RETAIL CHANNELS

To approach the aforementioned on-trade and off-trade channels, Belgian SMEs could consider the following four methods:

- Partnership with experienced distributors can help Belgian SMEs understand and approach the channels.
- Participating or visiting relevant trade shows will help to understand recent consumption trends and to meet more potential retail partners.
- Working with business chambers / consultancies in China to better approach retail channels.

6. MARKET ENTRY MODES

6.1 EXPORT TO CHINA

Belgian companies should carefully consider their market entry route in view of both short and long-term growth when deciding to enter the Chinese market. As a first step, most SMEs tend to work with local partner(s) by finding a distributor or agent. Local partner(s) should be experienced in the liquor market and be willing to assist the Belgian SME's for branding. Working with a local partner has its advantages and disadvantages.

Advantages may include:

- Saving time and money;
- Obtaining the knowledge of the local market faster;
- Taking advantage of the partners' existing network efficiently;

However, there are some disadvantages:

- Distribution through Chinese partners may result in additional costs and lower profit margin;
- Belgian companies may lose dominance on sales and marketing strategies.

A formal cooperation agreement is important, apart from the normal clauses, it is also suggested that exit clause and intellectual property protection should also be considered to be added into the agreement.

Belgian companies should also discuss with its partner(s) on how they will jointly develop the market, such as training, marketing assistance, sales targets. In addition, Belgian companies should consider to visit China on a regular basis and attend trade shows together with Chinese partner if possible.

As for the different models of distributorship which includes exclusive distributorship and multiple distributorship, please refer to the advantages and disadvantages below:

Advantages and Disadvantages of Different Distributorship Model

Model	Advantages	Disadvantages
Exclusive Distributorship	• Exclusive distributorship can save time and effort in negotiating with more than one distributor in the same region. • Maximize control over the output of sales in the territory. • Make the distributor more motivated, ensuring more dedication and knowledgeable sales efforts from the partners.	• Considering China's size, a single distributor may not have the capability to cover the country; key players would need to establish their own sales outlets in all major cities. • An exclusive distributor acts as the only partner in the market, which can discourage a competitive mind-set.
Multiple Distributorship	• Multiple distributorship can give the brand the freedom to sell to and appoint other distributors. • This can generate better market coverage, wider customer recognition and result in increased sales.	• The brand will need to cooperate with more than one partner, so more conflict and control problems could arise. • With this type of sales channel it is difficult to build and maintain a high level of exclusive brand image, which may result in distributers competing against each other. • Such an arrangement may also bring about a price war among distributors. Due to price inconsistencies from different distributors, retailers could sell at varying prices to customers.

6.2 SETTING UP A BASE IN CHINA

If your business has been kept expanding based on the partnership model, then establishing a physical presence in China could be considered for further development.

When deciding whether to establish a physical presence in China, Belgian SMEs should consider using a model that works well for its further development. Options will include establishing a Wholly Foreign Owned Enterprise (WFOE) or a Representative Office.

6.3 SOCIAL MEDIA AND E-COMMERCE PLATFORMS IN CHINA

Social media and e-commerce platforms are increasingly important for brands to reach and engage young Chinese consumers. Online supermarkets are particularly popular among young consumers.

Besides visibility, online channels give brands the opportunity to tell their story and educate young drinkers on how to consume their products.

- Taobao established in 2003 by Alibaba, is one of the largest online retailers in China. It is a Consumer-to-Consumer platform (C2C), which allows companies or individuals to establish stores on its website.

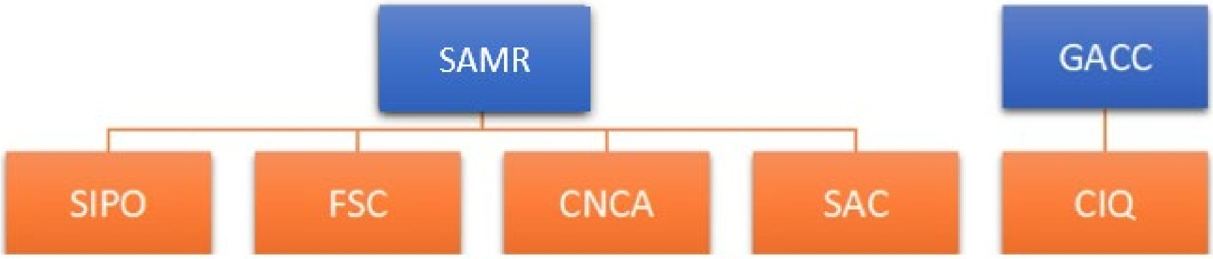
- Tmall is also an e-commerce platform owned by Alibaba, where brands and distributors can set up a store and sell to consumers directly. Distributors now make up more of the top 10 leading alcohol stores on Tmall, with many of the top distributors growing from content creators on social media platforms. Their well-made, interesting videos catch the young consumers' attention and introduces them to niche products.

- Jingdong (also known as JD.com), JD.com is China's leading one-stop e-commerce platform, providing nearly 500 million active customers with direct access to an unrivalled range of authentic, high-quality products. JD Worldwide, its cross-border platform also enables brands from around the world to sell directly to Chinese consumers.

- Douyin is a social media for short videos owned by TikTok. It allows hot influencers to link their videos directly to Tmall stores of the products they promote.

7. GOVERNMENT SUPERVISION & REGULATION

7.1 CHINA'S KEY AUTHORITIES' STRUCTURE



SAMR: State Administration of Market Regulation
SIPO: State Intellectual Property Office
FSC: Food Safety Commission
CNCA: Certification and Accreditation Administration
SAC: Standardization Administration of China
GACC: General Administrations of Customs of China

Basic functions of key authorities
CNCA: industry manufacturing licensing
SAC: product standard and quality inspection;
GACC: supervises inbound and outbound activities, include customs control, revenue collection, against smuggling and foreign trade statistics
CIQ: the inspection and quarantine of imported and exported products

7.2 CUSTOMS IMPORT TARIFF

TARIFF ITEM	ARTICLE DESCRIPTION	IMPORT DUTY	VAT	CONSUMPTION RATE
2208.3000	Whiskies	10%	13%	20%, +1 RMB/kg
2208.4000	Rum and other spirits obtained by distilling fermented sugar-caneproducts	10%	13%	20%, +1 RMB/kg
2208.5000	Gin and geneva	10%	13%	20%, +1 RMB/kg
2208.6000	Vodka	10%	13%	20%, +1 RMB/kg
2208.7000	Liqueurs and cordials	10%	13%	20%, +1 RMB/kg

2208.9010	Tequila, Mezcal	10%	13%	20%, +1 RMB/kg
22.05	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances	65%	13%	10%

7.3 REGISTRATION SYSTEMS OF IMPORTED FOOD IMPORTERS AND EXPORTERS

Only the importers and exporters that included in the filed lists of the General Administration of Customs of China (GACC) can handle the related food import and export. Manufactures overseas should also register to this system.
Link: [Registration systems of Imported Food]

7.4 PRE-PACKAGED FOOD PRODUCTS IMPORT PROCEDURES

7.4.1 Foreign alcoholic producers are required to register (refer to 7.3)

7.4.2 Customs Approval

Once the food products arrive in China, customs clearance agent inspects the products and reviews the commercial invoice, packing list, bill of lading, in order to confirm their declared value. Customs then issues a corresponding duty memo, which must be paid to customs within 15 days.

7.4.3 First-Time Import

Imported product is required to be inspected by The China Inspection and Quarantine (CIQ) office of GACC and obtain "Hygiene Certificate for distribution" and "Food Label Verification Certificate" as a paste-label on the package back.

7.4.4 Goods Exemption

The imported goods should have a China Inspection and Quarantine's (CIQ) paste-label on the packages' back with the product description in Chinese. This label, serves as an approval by GACC and also known as "Food Label Verification Certificate". For pre-packaged food products, the exporter can either paste the label before export or after its arrival in China.

The imported goods should have as well another certificate -- "Hygiene Certificate for distribution" which proves that sanitary condition of the product is qualified.

Food product which is imported for the first time always has to go through a series of complicated procedures. Once the first import is finished, the process will become more easily afterwards with regular import in the future. For subsequent shipments, GACC officials will still randomly inspect labels and samples even after a first-time import, but such inspections are cursory and less frequent, especially when customs officials is familiar with the product.

7.5 LABELLING

In order to further improve the efficiency of customs clearance, the General Administration of Customs issued the announcement on matters related to the inspection, supervision and administration of import and export prepackaged-food labels, it cancelled the label filing requirements of imported prepackaged food from October 1, 2019.

It stipulates that if imported pre-packaged food is selected for random on-site inspection or laboratory inspection, the importer shall submit the required documents printed on the food label to the customs, which normally includes the original and translation of the label, the Chinese label sample and other certifications.

Importers should be responsible for reviewing whether the Chinese labels comply with relevant requirements. Those failing the examination are not allowed to be imported. If the imported prepackaged food has not been selected for on-site inspection or laboratory inspection, the importer shall be responsible for verifying whether the Chinese label meets the relevant requirements.

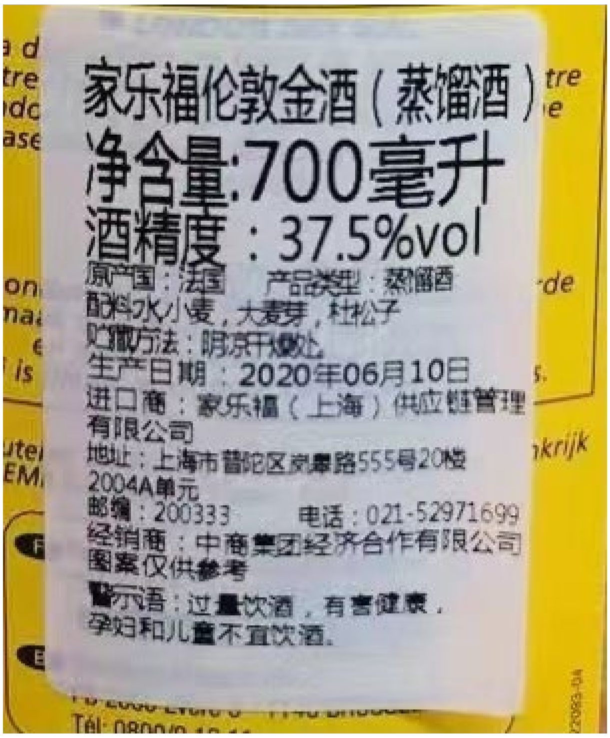
It is worth noting that canceling the filing is not canceling the supervision. It changes the original filing system into the spot check system and strengthens the post-supervision, which further strengthens the main responsibility of importers.

Therefore, we strongly suggest you to work closely with your potential importers on labeling issues as most importers are very familiar with the regulation and take the main responsibilities for it.

Imported prepackaged food labels must indicate:

- Product Name
- Ingredient list
- Specifications and net content
- Production date and shelf life
- Storage conditions
- Country (region) of origin
- Name, address, and contact of domestic agents

- Importers or distributors and label nutrients in some circumstances



(Label sample picture)

7.6 LEGAL BASIS

The legal basis for customs inspection and supervision of imported pre-packaged food labels mainly includes:

- Administrative Measures for Imported Alcoholic Beverages in Domestic Market
  (Only Chinese version available, it can be provided to Flemish companies through FIT)
- GB 17204-2008 Classification of Alcoholic Beverages
  (Only Chinese version available, it can be provided to Flemish companies through FIT)
- Labelling Requirements of Pre-packaged Alcoholic Beverages (GB 10344-2005)
  (Only Chinese version available, it can be provided to Flemish companies through FIT)
- Food Safety Law of the People's Republic of China (2018)
  (Only Chinese version available, it can be provided to Flemish companies through FIT)

- Import and Export Commodity Inspection Law
  (Only Chinese version available, it can be provided to Flemish companies through FIT)

- Measures for the Safety Administration of Imported and Exported Food 2021
- (Only Chinese version available, it can be provided to Flemish companies through FIT)

- GB7718 General Rules for Labeling Prepackaged Foods

- GB2760 General Standards for Food Additives

- Implementing Regulations for the Law of the People's Republic of China on Inspection of Import and Export Commodity (2019 revised Chinese version)

8. POTENTIAL DISTRIBUTORS/AGENTS

Remark: Name List can be provided to Flemish company through FIT.

9. TRADE FAIRS

- **China Food & Drink Fair**
  Location: Chengdu
  Time: March

  China Food & Drinks Fair (CFDF), known as the "wind vane" for China's food and drinks sector, was initiated in 1955, Now, it has become one of the largest and most time-honored exhibition events in China.

  Website: http://www.chinafoods-expo.com/

- **SIAL China**
  Location: Shanghai
  Time: May

  Asia's largest food innovation exhibition, SIAL China, is strategically located in Shanghai, a gateway to Asia, and a global center of finance and innovation.

Since 2000, SIAL China has served as a launchpad for food and beverage companies looking to expand abroad, and inspiring food business though sharing valuable insights and trends, connecting exhibitors and buyers, hosting industry-recognized events, and celebrating innovation.

Website: http://www.sialchina.com/

- **FHC (Food & Hospitality China)**
  Location: Shanghai
  Time: November

  FHC Shanghai Global Food Trade Show is the leading comprehensive exhibition platform in China. Its main exhibits including alcoholic products, seafood, high-end dairy products & oils; tea & coffee, bakery & gelato; snacks, confectionary &chocolate; high-end food supply chain; catering design & decoration.

  Website: http://www.fhcchina.com/en/

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