
The Hong Kong Wine Market

For its 20th anniversary, Vinexpo Hong Kong 2018 has welcomed 1,465 exhibitors, gathering more than 17,000 wine related professionals coming from around 50 countries. An even more successful edition compared to 2016. Proof that Hong Kong is a thriving market in Asia with new growth potential every year and room for product innovations in the wine industry. Indeed, Hong Kong's development in terms of wine has accelerated since the 2008 decision to eliminate all tax policies on wine and beer.

The local wine industry is backed up by numerous fine wine merchants with strong wine expertise and experience. In addition to that, Hong Kong is a major hub for Asia with an advantageous policy to re-export especially for Mainland China, providing other wine business activities such as retailing, warehousing, catering, transportation, education, etc. Hong Kong has for these reasons a very competitive environment and a nearly saturated wine market. At the same time, new consumption trends and consumer behaviours are emerging, offering companies the opportunity to change their strategy to differentiate themselves and increase their market shares.

The choice of subject and the redaction of my thesis is strongly linked to my work experience in Hong Kong from June to December 2018 as a Business Development Executive in the wine company Cytise Distribution Limited, specialized in importing and distributing French wines both in Hong Kong and Macau. The company was asking for an overview and an analysis of the direct competition (wholesale, retail, online) in order to see if their own price policy and product portfolio management was relevant. Also, I was curious about the overall behavior and wine consumption practices of the young generation of Hongkongers compared to their parents'. Indeed, it is essential for companies to find out what young consumers will more likely buy, for which circumstances and a what price point.

The new generation of consumer offers an excellent opportunity for long-term growth and loyalty. The key for companies is then to always monitor the market, trying to identify the upcoming trends. The objectives of my work are twofold. Showing what are the current business approaches of Hong Kong wine companies in terms of strategies and competitiveness while understanding what are the new consumption trends and how can they impact these businesses in their differentiation strategies, wine portfolio management and additional service offer. My study will therefore be limited to the Hong Kong geographical area and will focus on grape wine (still wine, sparkling wine, fortified wine).

All the economic data are mentioned both in US dollars (US\$) and Hong Kong dollars (HK\$) unless otherwise stated. When writing this report, 1 US\$ was equivalent to 7.84 HK\$. Then, in order to fully understand the rest of my paper, it is important to introduce some key facts about Hong Kong. One of the largest urban area in the world, Hong Kong, also called Hong Kong Special Administrative Region of the People's Republic of China (SAR), is home to more than 7,191,500 inhabitants on 1,108 sq km which make it the fourth most densely populated territory in the world. With an economy more service-oriented, the Gross Domestic Product per capita is the 12th highest in the world with US\$ 42,237.84. Indeed it is easier to create a business in Hong Kong compared to other countries. 1.5 days to start a company, 6 days to export and 5

days to import.

Thus, the unemployment rate is decreasing as well as the inflation rate. Economists forecast an increase of the real GDP of 3% every year until 2022 (Statista Country Report – Hong Kong, November 2017). Moreover, 1.2% of the household consumption is dedicated to alcoholic beverages, whether for private consumption, celebrations or gifts. Hong Kong consumers have a strong interest for grape wines. From off-trade to on-trade sales, the volume of wine has been increasing since 2010 from 26,8M litres to reach 35,1M litres in 2017 (+30.97%), forecasting to 36,8 M litres in 2021. Annual studies show that the average per capita consumption stands at 4.8 litres. Nonetheless, it appears that in reality, the local apparent consumption is only 3L/capita instead of 4,9L/capita (Anderson, K., & Harada, K., 2018).

In terms of competition environment, Moët Hennessy Diageo (MHD) Hong Kong was leading the wine sales in 2017 with 6% of total volume shares. According to Euromonitor's report on wine in Hong Kong, China (June 2018), the most dynamic categories in 2017 were still white wine and champagne with a total volume growth of 4%. Revenues in the wine segment amount to US\$ 480 M in 2018. The market is expected to grow annually by 5% until 2021. However, the year-to-year volume growth tends to slow down to about 2% every year since 2015 while at the same time, prices per unit were US\$ 9.83 in 2010 vs. US\$ 12.91 in 2017 with a forecast to US\$ 14.61 in 2021. Most of the sales of red and white wine are made between two ranges of prices: 17.30 to 22.40 US\$ and 8.30 to 17.3 US\$.

On-trade volume sales were higher than off-trade in 2017. However, the on-trade channel saw slower growth, increasing the share of the off-trade channel. Supermarkets and retailers such as Wellcome and ParknShop are gaining importance, as is internet retailing. Specialist shops are key for premium wine and champagne. However, in off-trade, people are willing to pay more for a red wine than for a white wine. Consumers in Hong Kong generally prefer red wine to white; although due to strong promotion at wine festivals, white wine saw higher growth in 2017. Finally, the Hong Kong wine market is currently experiencing a premiumisation trend particularly with Champagne brands (Statista Consumer Market Outlook – Wine in Hong Kong, April 2018).