

WINE'S FIRST-TIER CITY

Shanghai has the distinction of being the most populous city in China, and it's home to the country's top bars, wine stores and sommeliers, reports Jim Boyce.

What a difference a century makes. In 1916, in a lengthy Department of Commerce report on China, Thomas Sammons, the US consul in Shanghai, wrote less than a page about the wine market. The lone notable producer was Changyu, imports were just over \$600,000.00 the previous year, and, Sammons noted, optimistically, "Small quantities of wine imported from the United States, and American clarets especially, have been much in evidence recently, being found in any retail wine store."

Sammons would need far more space - and zeroes - for today's market. Dozens of local producers make decent wine, bottled imports topped 410m L worth \$1.9bn last year, and a wide range of US labels are available, including at a Shanghai venue with links to a leading family of his time - The House of Roosevelt.

Shanghai itself would need a significant section, given 33% of imported bottled wine by volume and 27% by value was claimed via its customs office in 2015. The city is home to China's top wine bars, menus and sommeliers, site of key trade fairs such as ProWine and SIAL, and headquarters for global firms like Moët Hennessy Diageo, Pernod Ricard and Treasury Wine Estates, and major foreign-invested players like ASC Fine Wines, Paradox and Summergate. Its consumers not only have the most disposable income in China - rmb27,500 (\$4,050.00) in the first half of 2016, based on the Shanghai Bureau of Statistics - but also are deemed the savviest.

Innovative and curious

"Shanghai is without a doubt the most sophisticated wine market in China," says Alberto Fernández, managing partner of importer and distributor Torres. "People are interested in many sorts of wines and regions, are willing to try different things, and like to show it. They are very competitive in terms of gaining knowledge."



That outcome is no surprise to Oliver Zhou of social network and ecommerce site Vinehoo. Even a century ago, in Sammons's time, residents embraced practices like afternoon tea and wine appreciation. "They don't have the bias of other regions," says Zhou. "I would say Shanghai nurtured the first group of people that really started to drink wine for its quality, that cared about what's in the bottle."

That appreciation goes for wine's partner - food. In September, Shanghai became the first mainland city to get a Michelin guide, as 26 restaurants shared 31 stars, with fierce debate raging over the results. "The international restaurant scene is as good as any city in Asia," says Marcus Ford, general manager of Pudaowines and a 20-year Shanghai resident. "That brings interesting wines and a cosmopolitan outlook on the world of wine."

"If Shanghai is 100 [on a scale], Beijing is 30 and Guangzhou is 35 or 40," says Zhou.

What does that mean? For one thing, more people are 'beyond Bordeaux'. Distributors usually mention Burgundy as a favourite second stop, with Ford also citing Australian labels, while Fernández gives a nod to Riesling, especially German. Campbell Thompson points to interest in the cool-climate wines from Australia, Austria and New Zealand on which he bet while founding importer The Wine Republic eight years ago.

"Some people thought we were brave then," he says, adding that social media, wine education and venues with good by-the-glass options have helped drive interest and justify the decision. These more sophisticated drinkers also buy more white and New World wines, he says, and do so for enjoyment. "My feeling is young professional females who know what they like, and see wine as part of their lifestyle, are a bigger part of the market in Shanghai," says Thompson, by way of example.

Shanghai consumers also have a wealth of bar, restaurant and retail options. While Beijing struggles to support quality wine bars, Shanghai offers everything from Italian-focused UVA, Bordeaux-centric Le Bordelais and organic specialist Chez Maurice, to more general venues such as Dr Wine, Cucina, Enoterra and Le Verre à Vin. Simone Incontro, head of Vinitaly's Shanghai office, says such venues give an opening for Italian wines, which have struggled to gain market share.

"More wine bars, such as UVA, Salute and Funkadeli, offer local consumers a typical Italian 'aperitivo'," he says. "Customers can start with an Italian sparkling wine and then, little by little, may shift to southern Italian wine like Primitivo and wine from Sicily, or turn to more expensive bottles such as Barolo, Brunello and Amarone."

It's the same tale with wine menus. The mainland winner of the annual China's Wine List of the Year Awards comes down to the top Shanghai candidates, with Hakkasan winning this year, Franck in 2015, and Napa Wine Bar & Kitchen in 2014. That, in turn, is a testament to a more skilled wine trade, including sommeliers.

Tommy Lam started the China National Sommelier Competition in 2009, and says 80% of finalists the first two years hailed from outside the city. "Now 90% of the final ten candidates are from Shanghai," says Lam. While the city is firmly in the lead, he does caution that trade people need more knowledge in areas like spirits and craft beer.

In any case, these people work in a scene with vast choice, from business-to-business sales to brick-and-mortar operations. "When I first came to Shanghai in 1999, there were five or six wine vendors supplying the tiny collection of Western-focused hotels, restaurants and bars," says Ford. "I still have fond memories of the Krug rep delivering his Champagne on the back of a bicycle."

Fast forward 16 years and the first nine months of 2016 saw 4,500 companies import wine, enough to support a vast range of retail choices. Incontro quickly lists the options, from hypermarkets like Carrefour to supermarkets like City Shop and Ole to the growth in shops by online players like Yesmywine and 1919. "In Shanghai, [ecommerce sites] Yihaodian and Tmall are strong as well, and we can't forget the influence of WeChat and of WeChat stores," says Incontro. "If you are a producer who wants to sell your wine here, you have to study all these players before making any decision."

Top importers like Summergate (with Pudaow Wines) and Torres (with Everwines) also have shops. But Fernández of Torres notes the rapid rise of competition, including from ecommerce. "It's becoming more difficult to get traffic," he says, making the shop more of a portfolio showcase than a steady revenue source. "Platforms like Tmall and JD.com, that's actually where people go and shop for whatever they need, from a toaster to a bottle of wine," he says. This, and high rental and operation costs, means he plans to open new shops elsewhere - in Guangdong and Jiangsu.

Importer Paradox took a slightly different approach by opening a French restaurant under its own name. The clientele underscores Shanghai's varied clientele, says company vice president Charles Carrard. "We attract Chinese consumers, coming around 6:00 pm, then Westerners between 7:30 pm and 8:30 pm, then Japanese and Koreans after dinner, around 10:00 pm, for oysters, Champagne and whisky," he says.

While wine bars, niche retailers and upscale restaurants

serve savvy consumers, what of the wine-buying masses? Carrard points to one of Paradox's key outlets - hypermarkets, such as Carrefour. "Hypermarkets target real people, people who discover wines, people who are part of the middle class," he says. "Not the happy few who want to show off in a restaurant or with gifts."

While people traditionally bought wine based on brand status and packaging, mainly for gifting, Carrard says consumers are steadily learning more about varietals and terroir. "Apps and travel made them more aware of imported wines and their value," he says, although he adds that this consumer attitude is still relatively rare in second-tier cities.

Carrard describes a trade where distributors and retailers have reduced SKUs to ease stock pressure and focus heavily on core brands. And, despite greater curiosity among consumers, he notes that at least for his company, with a strong French focus, red wine dominates sales, with two-thirds from Bordeaux.

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The flip side of huge retail outlets are the small shops sprouting in Shanghai, including those by ecommerce giants like Yesmywine and 1919 - the so-called O2O or online-to-offline trend. At the recent fall China Food and Drinks Fair, held this year in Fuzhou, both companies had demonstration stores on display. "We have 150 people here," said Andrew Tan of 1919, surveying two dozen tables where potential franchisees asked questions. He describes Shanghai's market as more cosmopolitan, attracting a global workforce and cultivating a consumer base that knows what it wants and how to get it at a fair price. "In other provinces, imported wines are still seen as luxury goods," he says. "The pricing is not clear and you still see people selling low-quality wines at high prices."

Tan expects to have 120 stores in Shanghai by the end of 2017, and says the company's delivery

model - 19 to 30 minutes after an order is placed - will give it the edge. Companies like 1919 and Yesmywine also hope to keep their costs down by importing wine directly.

Zhou says Vinehoo is pushing a different model. He sees 1919, Yesmywine and JD.com as focused on inexpensive wine - he estimates the average sale is well below rmb100 - while his clients seek value for money. "They don't really care how much they pay for each bottle but they care what each bottle is worth," he says. Vinehoo works with over 100 different suppliers, he says, with an average sale of rmb320 per bottle.

And he sees Shanghai as the leading force for what is ahead. "Shanghai people are quick adapters, always leading trends. The first for Wine Searcher, the first for French wine other than Burgundy, the first for fine Italian and Spanish wines," he says.

Vicente Muedra, general manager of Sommelier International, which focuses on Spanish wines, also sees something unique. "Vinehoo started with a real community of wine lovers, then developed into flash sales. And they don't really sell a lot of cheap stuff," he says. His wines must pass a blind tasting - he's witnessed these in Shanghai - before being offered for sale. "They're building the whole thing on credibility," says Muedra.

Even so, while Zhou and others are optimistic, they caution that making money in Shanghai is not easy. "If you want to build an image, yes. If you want to do something that wows people, yes," says Zhou of Shanghai's advantages. "But I've been to cities with more business potential than Shanghai. Even Beijing. I always thought Shanghai would be the professional side and Beijing would be the actual trade side."

Thompson of The Wine Republic agrees. "Shanghai is probably not the best place to try to launch a new wine import business, unless the company has a very strong point of difference, or very deep pockets," he says. "Rents and staff costs are high, and the on-premise channel is fairly crowded, and so is the retail channel."

Still, if you want a presence in a city where people drink wine for its own sake, Shanghai is hard to beat. "C'mon, how many people drink a bottle of wine, a glass of wine, with their food in Beijing?" asks Zhou. "And that happens in a lot of places in Shanghai. I think that tells you something." ■



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