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CBBC Insight

## Snapshot of the Whisky, Gin, Cider, and Beer Markets in China

China has the largest spirits market in the world, with Chinese consumers out-drinking their UK counterparts by 75% when it comes to the hard stuff.<sup>1</sup> Traditional Chinese spirits such as **baijiu**, a clear spirit distilled from grain, are firm favourites among Chinese drinkers, especially with male consumers born after 1970, for whom baijiu plays an important social role in building professional relationships.<sup>2</sup>





However, as disposable income has increased over recent years, lifestyles in China have changed as well. People are increasingly likely to travel and study internationally, experiencing different lifestyles in other countries. Imported alcoholic beverages have subsequently become more popular among Chinese consumers, and compared to the main buyers of traditional alcoholic beverages - those targeted by imported spirits, ciders, and beers are younger and are looking not only for high quality, but also for a memorable overall drinking experience. This means imported alcoholic products need to provide a brand story, craftsmanship, and other unique selling points alongside a taste to savour.

Customer consumption patterns and trends within the China market are changing, as are Chinese alcohol companies themselves

- 42% of Chinese people abstain from alcohol completely, and there is a growing demand for drinks with **low or no alcohol content**.<sup>3</sup> At the same time, for those that do drink, more have begun to enjoy their whisky neat, and there is growing interest in different drinking cultures and experiences.
- **Aesthetics** are gaining importance: consumers prefer eye-catching and stylish packaging, and coloured gins are perceived as more attractive by those who are partial to a G&T.
- **Fruit-flavoured beers** are rising in popularity.
- Chinese companies are becoming more active in the international market: **Yanghe** cooperated with Diageo to launch the Chinese whisky brand **Zhongshiji** (中仕忌) in April 2019, and Hillhouse Capital Management acquired Loch Lomond Group later that year.

<sup>1</sup> <http://apps.who.int/gho/data/node.main.A1039?lang=en>

<sup>2</sup> [http://www.sohu.com/a/329134672\\_693347](http://www.sohu.com/a/329134672_693347)

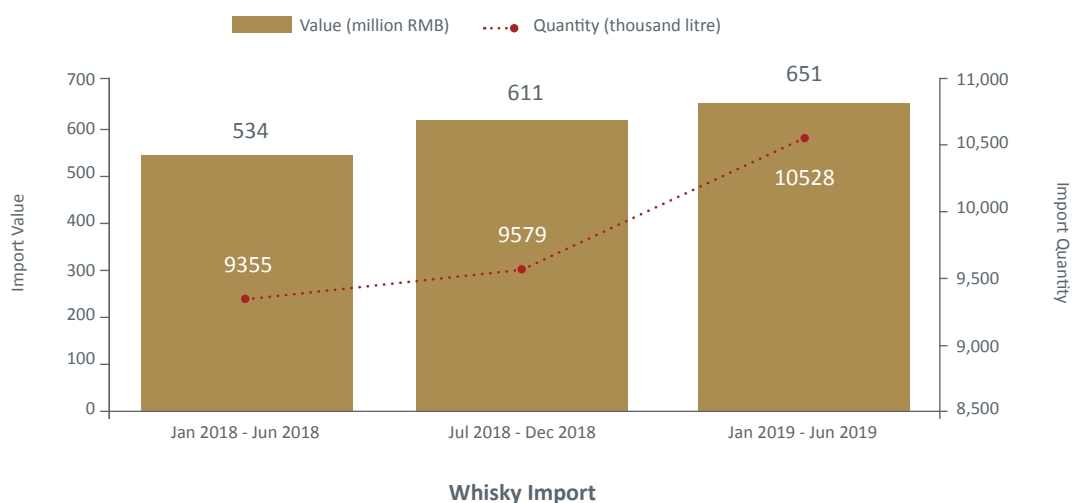
<sup>3</sup> <http://apps.who.int/gho/data/node.main.A1040?lang=en>



## CHINA'S CHANGING WHISKY MARKET

When compared to more mainstream alcoholic drinks - including baijiu, beer, and wine - whisky is still considered a niche category in China; but one with strong growth potential. It is predicted to be a future consumer trend, and according to data from China Customs, both the total value and quantity of whisky coming from the UK are continuously increasing.

In the first six months of 2019, China imported RMB 651 million (GBP 72 million) of whisky, a growth of 22.1% over the same period in 2018.<sup>4</sup> The total volume of whisky imported during this period was 10.5 million litres.



Data Source: [China Customs](#)

<sup>4</sup> GBP 1 = RMB 9.0, <https://finance.yahoo.com/currency-converter/>, rate correct on 30th December 2019. This rate applies throughout this document, unless stated otherwise.



In terms of origin, **Scottish whisky** is still widely considered by Chinese consumers to be the most authentic whisky. The value of direct exports of Scottish whisky to China increased from below GBP 10 million in the early 2000s to GBP 76 million in 2018. China is therefore an important emerging market for the Scottish whisky industry to pay attention to.



Another recent trend has been the rising popularity of **Japanese whisky** in the China market, particularly in bars (as opposed to the retail sector). One reason for this might be the similarities between the Chinese and Japanese scripts, making it easier for Chinese consumers to recognise the labels of Japanese whiskies and producing a sense of familiarity.

The main consumers of whisky comprise those with experience living abroad and young families with an annual income over RMB 350,000 (GBP 38,900; considered to be high in China). Since December 2017, the tariff on imported whisky has been 5% (it was previously 10%), which has further increased the quantity of whisky imported into China.

## HOW POPULAR IS SINGLE MALT WHISKY?

When it comes to specific products, single malt whisky remains a popular choice among Chinese consumers. It has taken several years for Chinese consumers to become familiar with whisky and its culture, with big players in the industry having spent considerable time educating consumers through promotional activities and tastings intended to increase acceptance of their products. The price of single malt whisky in the China market ranges from a couple of hundred to hundreds of thousands of RMB, in order to cater to the diverse needs of consumers.

Despite this, according to insights from several importers and sales records from **JD.com**, one of China's mainstream E-commerce platforms, single grain whisky is less popular in China than other types of whisky, as consumers consider its craftsmanship to be relatively simple. Expensive single grain whisky (not to be confused

with single malt) is therefore difficult to sell and market effectively in China unless it is of a particularly high quality. CBBC consulted an expert in this industry in China who believes that single grain whisky must be at least 20 years old in order to be sold at a high price, and this appears to be a common understanding within the China market.

Overall, the whisky market in China remains small but has significant potential for growth. Whisky drinkers in China are younger than consumers in traditional whisky-drinking countries, and on-trade channels continue to comprise the main points of sale. That being said, whisky can now be purchased in most supermarkets in China, and there are now a number of speciality whisky stores in first-tier cities, which more young people are frequenting to purchase a bottle as a gift, or to drink at home with friends.

## CONSUMER INSIGHTS – THE WHISKY MARKET

A problem faced by whisky brands, particularly Scotch whisky where the location is integral to the production process, is meeting the demand of their Chinese customers. In terms of emerging markets like China, the purchasing power lies in single malt whiskies, which are perceived as being more premium. With the new generation of younger Chinese whisky enthusiasts, big brands are taking this opportunity to rebrand what exactly makes a whisky premium. Moving away from the idea that longer-aged whiskies should be more expensive, UK companies such as Edrington (The Macallan) are inviting consumers to consider other aspects of the whisky production process when purchasing a bottle. For example, Edrington's strategy focuses on not only premiumisation, but also diversification. "The Quest", a selection of four different whiskies characterised by differing flavour as a result of using different variations of wooden cask is marketed at Chinese travellers. Each bottle is branded as an individual personality, which speaks to the trend of Chinese consumers seeking individualism. The label design of these products actually depicts images of the casks themselves as centre stage, rather than the whisky age in numbers. Highlighting

other important aspects of the whisky making process is both an opportunity to educate unfamiliar consumers as well as a potential solution for companies seeking to disassociate whisky with decades of ageing, giving them some breathing space in terms of meeting overseas demand.

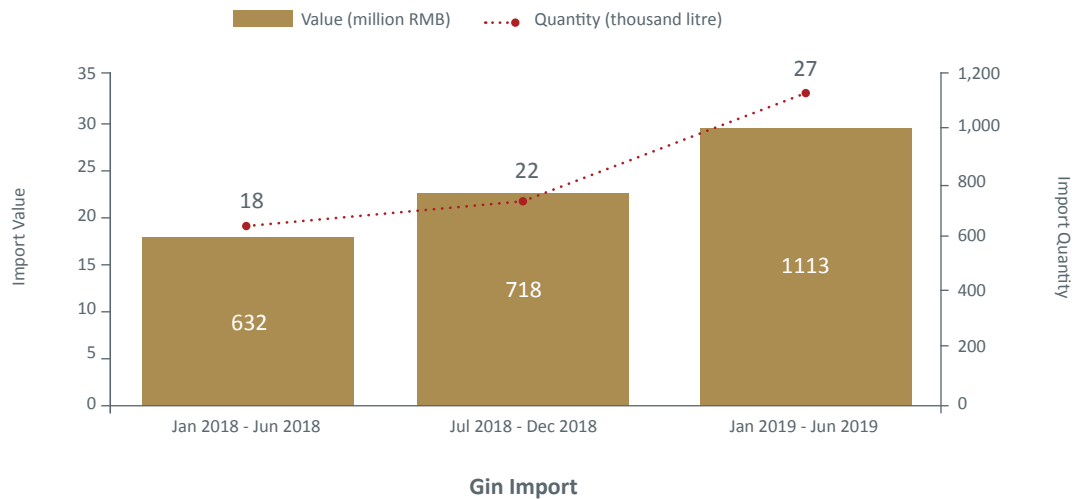
Brands are also investing in large experience-driven distilleries in the UK and China, for example, Pernod Ricard has just spent \$150 billion building a visitor centre in Sichuan, whilst Diageo has collaborated with a Chinese Baijiu master to create an East-meets West whisky product. The rich heritage and provenance of whisky makes it very easy to market (see Highland Ark's Norse warrior names) – the challenge lies in finding new channels through which to communicate these stories effectively. The whisky market is very mature in the UK, and shows no sign of slowing as it is predicted to account for 46.9% (\$450 billion) of the global market by 2021. Future challenges include making this market accessible to younger, unfamiliar generations and generating innovative ways to experience and consume whisky in the future.





## CHINA'S GROWING GIN MARKET

Although the import value and volume of gin are relatively small compared to other spirits, the quantity of gin imported into the China market continues to increase. In the first six months of 2019, China imported 1.1 million litres of gin worth RMB 27.3 million (GBP 3 million).



Data Source: [China Customs statistics](#)

Approximately 70% of imported gin in China comes from the **UK**, with **France** and the **Netherlands** contributing the second- and third-largest volumes, respectively. **Shanghai** and **Beijing** are the leading regions for gin consumption in China, followed by **Tianjin**, **Guangdong Province**, and **Henan Province**.<sup>6</sup> On-trade channels are responsible for the majority of gin consumption, and speciality gin bars have begun to emerge in first-tier cities.

<sup>6</sup> [https://www.sohu.com/a/160139216\\_503809](https://www.sohu.com/a/160139216_503809)



## INSIDE THE GIN MARKET IN CHINA

Awareness of gin is relatively low in China. For gin to successfully make it there, product localisation is critical. Not only is gin lacking in cultural heritage and provenance (having only recently experienced a resurgence in the UK), as a white spirit, gin must contend with the nation's favourite – the grain-based baijiu – therefore its unique taste is unfamiliar to many Chinese consumers. Juniper-based gins are often perceived as being bitter, and consumers are yet to grow accustomed to them. Indeed, for those that do drink it, gin is more commonly drunk as the base of a cocktail, rather than neat or in a gin and tonic. That being said, Chinese consumers are beginning to develop a taste for gin, and have been found to favour coloured gins in particular for their aesthetic appeal.

CBBC has spoken to a Shanghai-based importer who shared his insights into the Chinese gin market. He stated that bartenders usually have their own cocktail-making styles that incorporate frequently-used gins and preferentially-fixed cocktail recipes. It would therefore require considerable time and expense for importers to launch new gins in bars. Another importer in Beijing also told CBBC that although new gin brands are continuously entering the market, the gins most frequently used in bars are still those which are widely-distributed, rather than new products bought in smaller batches, which are more often used as decorations within cocktail cabinets. Chinese buyers also remain highly selective in importing new gin brands.

## MARKETING GIN TO THE CHINESE MARKET

The experience of watching the process of mixing cocktails remains a novelty in China – even more so than in the West. According to a consumer study conducted by Shanghai based alcohol importer and distributor, BottlesXO, Chinese consumers respond positively to visual experiences when purchasing alcohol, even more so than their Western counterparts.<sup>7</sup> Ways with which brands can capitalise on this characteristic is to emphasise the experience of cocktail making and incorporate their gin product into that journey. Whilst pink gin in particular has taken off in the UK in recent years, this could translate into the Chinese alcohol market as part of the presentation of the product and its aesthetic. It is key to remember that any kind of white alcohol that isn't vodka equates to baijiu for the majority of Chinese drinkers. In order to distance a gin product from that preconception, and to compete with Chinese Baijiu, gin companies should focus on premium branding and invest in the development of flavoured and coloured variations.

British brands can learn from **Chinese gin companies** which have diversified their marketing approach in order to increase their appeal to consumers. Peddlers Gin, produced in Shanghai, uses a local yet unusual blend of botanicals, including Sichuan pepper and Buddha's hand. Gin brand, Crimson Pangolin, from Changsha is popular amongst Chinese consumers in part due to the golden colour of the blend itself, but also due to its branding. Whilst the cute animal on the logo aligns with the influence of "Meng" (cute) culture (think of TMall's cat, Hema's hippo, and JD's dog), Crimson Pangolin also works with conservationists in China to save these animals from being trafficked to extinction for their scales – thereby delivering a high quality, localised gin which goes the extra mile through contributing to an important cause.

Similarly, Monkey 47 gin, a German product, does very well in China. Monkeys are featured throughout Chinese history and culture, from the zodiac to literature and movie adaptations, such as the Monkey

King in *Journey to the West*. Pernod Ricard released a short advert specifically for their Tmall Monkey 47 page. The video places the monkey branding at centre stage, telling the story of "a monkey who came from a faraway forest in Germany with a very special mission: to spread the love of foreign mixology and gin drinking."

Chinese consumers may practise caution around unfamiliar clear alcohol. Fake alcohol is a widespread problem in China – as all too often the branded bottles of well-known spirit brands (from Grey Goose to Smirnoff) are re-filled with strains of ethanol in bars and nightclubs across the country. Through a combination of introducing new flavour variations and emphasising the hand-crafted element, foreign brands can distance themselves from this practice.



<sup>7</sup> Lonie-Renfrew, Maxime: *Identifying the Purchasing Motives and Behaviour Responses of Imported Wine Consumers in Shanghai – Case Study BottlesXO International*, Shanghai, SJTU, Antai College of Economics and Management, (October 2019)





## CHINA'S YOUNG CIDER MARKET

According to CBBC's observations, the main consumers of cider in China are women and students, due to its relatively low alcohol content. At present, high-end supermarkets and those that focus on imported products are the main distribution channels for cider.

Since 2000, a number of cider producers have emerged in China, although the vast majority of them only operate on a small scale. China produces one third of the world's apples, yet only 4.7% of them are used in further processing activities such as making cider, a rate significantly lower than the global average of 21%.<sup>8</sup> As these figures suggest, cider is not a traditional drink in China, and the cider market still relies heavily on imports.

In China, cider is perceived as healthy and refreshing. It is therefore growing in popularity and provides a potential opportunity for international brands looking to enter the China market. Since its launch in April 2016, **Somersby** (produced by Carlsberg) has become one of the most well-known cider brands in China, and it is not alone: with rising awareness of cider in China, more international brands are now entering this market and seeing their sales grow. The number of Chinese brands is also increasing, and now includes the likes of **Ping Dynasty Cider** (“苹朝西打”) and **Urbrew Cider** (“优布劳”).

However, the cider market in China is still in its infancy. In contrast to whisky, gin, and beer, no customs category has yet been established exclusively for cider; it remains classified under the category of “alcoholic drinks made of fermented fruit”. Ultimately, more consumer education is needed for cider to reach its potential in China, as many consumers still do not understand what kind of beverage it is.

## MARKETING CIDER IN CHINA

As with Gin, the lack of consumer awareness surrounding cider and its origin in China can pose a potential obstacle for brands. It is therefore important for brands to find alternative means so as to familiarise their target market segment with their products. A great example of a cider brand which has successfully done this is **Ping Dynasty**. Not only has Ping Dynasty drawn on Chinese heritage to brand their cider (national pride and incorporating Chinese heritage into products are both big trends for 2020), they have also adapted the flavour of their cider and localised its ingredients: from using local apples to developing the first Yangmei (a Chinese berry) Cider. It's important

to remember that China has a less developed drinking culture than the West, where alcohol is more frequently consumed with food in a familial setting. Drawing on these cultural nuances, Ping Dynasty have capitalised on the naturally sweet flavour of cider as being complimentary to many spicy Chinese foods. It is also important to remember that Chinese summers are sweltering - particularly in urban areas where heat and humidity is combined with air pollution. In these conditions consumers look for refreshing products and fruit flavoured cider fulfils this demand.

<sup>7</sup> <http://www.tangjiu.com/art/8d4KsNSaeKYT.html>



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## BEHIND THE SCENES OF THE CIDER MARKET

Some importers CBBC has spoken to mention the success of the Danish cider brand, **Tempt** in the China market: Tempt's bottle is transparent, revealing the product's golden colour. It is also competitively priced.

CBBC has conducted research into Tempt on JD.com and found that it comes in a range of flavours, including apple, elderflower, black cherry, strawberry, and lime, and is priced at approximately RMB 14 (GBP 1.5) per 330ml bottle.

京东超市 丹麦原装进口诱惑3号7号8号9号西打酒接骨木味车厘子苹果水果味啤酒 330ml\*12瓶混合装

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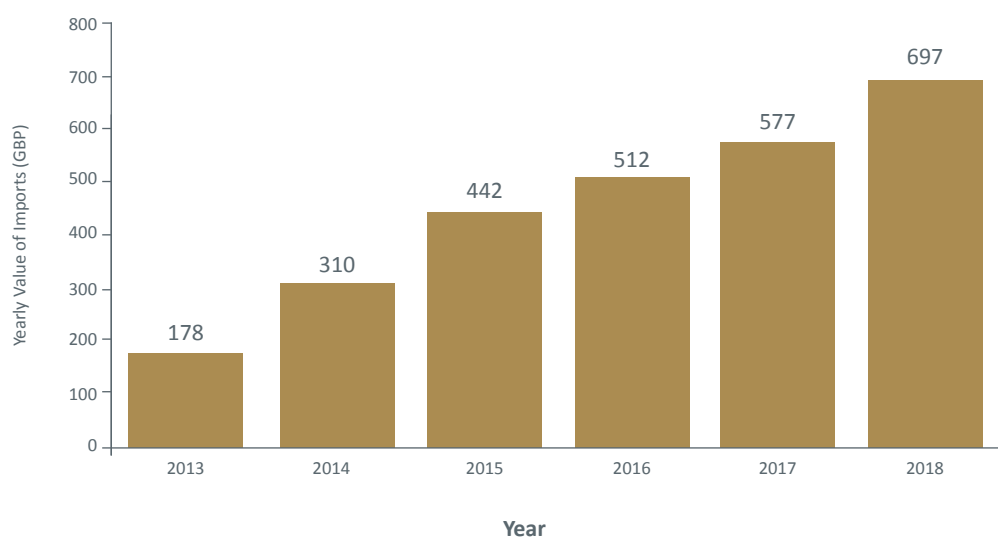
To sum up, from a Chinese buyers' perspective, a successful cider product should be aesthetically attractive and competitively priced, otherwise standing out can prove difficult.



## CHINA'S BOOMING BEER MARKET

Per capita consumption of beer in China is higher than the global average, with sales of beer worth GBP 64 billion in 2018. Chinese pale lager currently accounts for the majority of the overall market by volume, while Chinese craft beers such as **Jing-A** and **Panda Brewery** are emerging as key players as their quality continues to improve. Indeed, with changing consumption patterns and rising average Chinese incomes, imported and high-end beer products are predicted to experience rapid growth in total sales as well as market share over the coming years.

The volume of beer imported into China has grown steadily since 2013, reaching 822 million litres in 2018. The value of the imported beer market also increased during this period, albeit at a decreasing rate, and was worth GBP 697 million in 2018.

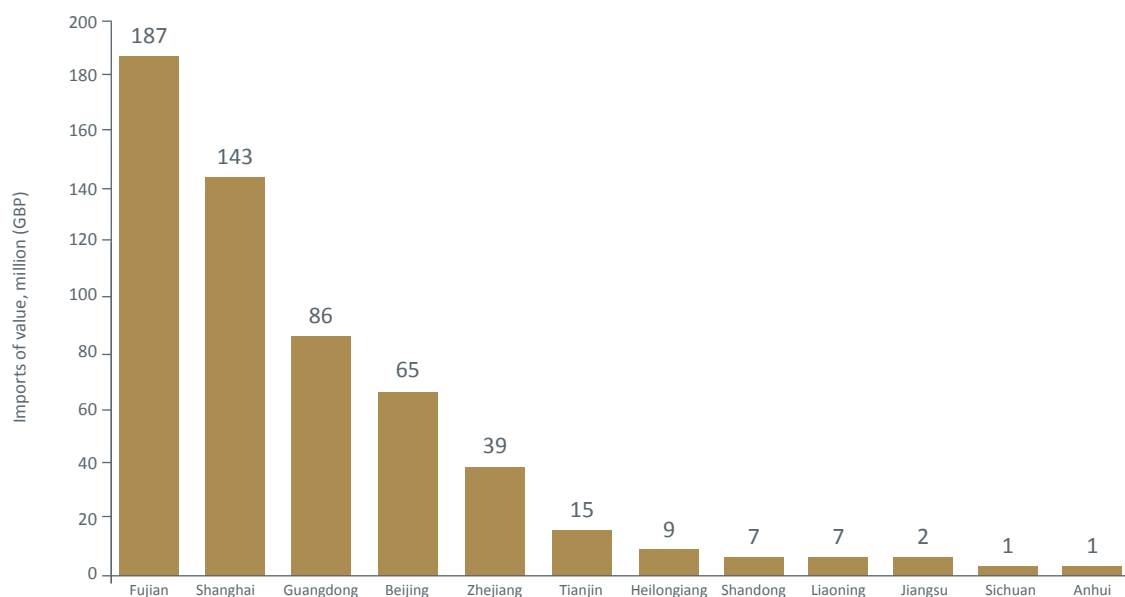


Data Source: <http://www.askci.com>; <https://www.putaojiu.com/shangxun/235796.html>





In terms of traders' place of registration, **Fujian Province** imported the most beer of China's regions, followed by **Shanghai, Guangdong Province, Beijing, and Zhejiang Province**.



Data Source: China Customs (exchange rate: 1 GBP = 8.9 RMB, 2nd December 2019)

*Please note: The above chart is for reference only and should not be taken as an accurate representation of the market size in each region, due to limited publicly-available data*



## BREAKING INTO THE BEER MARKET

CBBC has interviewed a number of importers in Beijing, Shanghai, and Guangzhou, who shared their insights into the beer market in China. They emphasised that a product's packaging and labelling must be visually attractive, as it is this initial impression that will encourage Chinese consumers to purchase beer they are unfamiliar with, regardless of taste or reputation overseas.

CBBC has also visited several import supermarkets in order to conduct market research. This research covered key first-tier Chinese cities, as it is these which constitute the target market for imported beer. According to CBBC's research, light beer is more readily available in stores than dark beer, and on-trade prices tend to be higher than off-trade prices.

## THE EMERGING CRAFT BEER MARKET

The beer market in China is quite interesting as it is truly driven by consumer taste preference rather than price point or country of origin or other frequented purchasing motivations. As with the UK, craft beer made its way to China through a combination of local and imported weird and wonderful ales. Observations of this market from the ground up in Shanghai indicate that there is less demand for craft beer in East Asia, primarily due to differing consumer taste preferences. In the UK, quite often craft beers with particularly hoppy, stronger flavour profiles are considered superior. In China, taste in beer has evolved from products such as Tsingtao and Snow Beer, which both contain very low alcohol percentages and subsequently mild flavours similar to light Western lagers. It was observed that, given the option, Chinese beer drinkers would consistently opt for a milder beer, such as pale ale, over an IPA.

Beers infused with either fruit or tea flavours were also popular amongst both male and female drinkers in China. With refreshing flavours rather than heavy, dark beers in greater demand in the heat of China's summer: Jing-A Worker's Pale Ale, Master Gao's Baby Jasmine Tea Lager and Kaiba's Passionfruit Lager - all domestically produced - are popular craft beer choices for Chinese consumers.

As with the imported whisky market, China's imported beer market is predicted to follow a trend of premiumisation. With the Chinese beer market currently saturated with low-priced domestic lager brands, large international beer companies such as Heineken are investing in China as a future premium imported lager market.

According to CBBC's observations, promoting fruit-flavoured beers would be the best way to adapt to the current market trend of increasing demand for beers with low or no alcohol content. Such beers are more attractive to consumers who are reluctant to try beer, and therefore provide an opportunity to open up new areas of the market. It is also important to note that Chinese distributors have highlighted in the past that bottled alcoholic beverages tend to sell better in China, as opposed to those which are canned. This could be due to tin cans being more readily associated by Chinese consumers with soft drinks, rather than beer or cider.







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