THE WINE WORLD'S AMBASSADOR TO CHINA

INTERVIEW WITH DON ST PIERRE JR. BY JOEL B. PAYNE

When ASC Fine Wines began business in 1996, China was not yet on the wine world's radar screen; however, founding partners like Bollinger and Beringer believed in Don St Pierre Sr, 67. In its first full year of business, ASC sold only 4,000 bottles. Today, St Pierre and his 41 year old son Don Jr sell 5m bottles through seven warehouses in over 100 cities, accounting for roughly a fifth of all imported wine by value. Two years ago, they set up operations in Macau and have just opened an office in Hong Kong, where Joel B. Payne spoke to Don Jr.

Meininger's: The Chinese market seems to have been one in which a big importer has been dominant. First it was Montrose, then yourselves. Is that the sign of an immature market?
St Pierre: China is certainly still an immature market. It is also an incredibly inefficient and difficult place to operate – and one that places a premium on experience.
Meininger's: It has been estimated that the bigger, established importers and distributors like yourselves, Torres, Summergate, Jebsen, Everwise and so on handle less than half of imports, with the rest being moved by smaller firms spread around the country. Is this true?
St Pierre: Yes, and you can add both Aussino and Jointek to the list. If you look at value, however, it is a different story. Together those companies import almost three quarters of all wine. ASC alone accounted for 20% of import value in 2007 and we believe our share will increase this year.
Meininger's: Is it true that you are becoming involved with wine production in China?
St Pierre: We would very much like to be producing and distributing Chinese wines, but must be confident in the potential for quality, and not just relative to what is already made here. There are about 400 wineries in China, so there is no lack of choice. That said, we don't want to sell Chinese wines if we do not have an equity stake. Ideally, we would prefer having a well-known foreign wine producer as our partner. Our role would be to promote, market and sell the wine; our partner's to produce it.
Meininger's: What effect are the abolition of duties in Hong Kong and now Macau going to have on your business in China?
St Pierre: Since we had already decided to open up operations in both cities before this change, the overall effect will be positive. In the short term, however, it is hurting our business because some of our private clients in mainland China are buying wines in Hong Kong to save on duty. More troubling, the smuggling from Hong Kong across the border has increased dramatically.
Meininger's: What differences do you see in China from region to region?
St Pierre: Wine is perceived much the same by consumers throughout China, namely as a sophisticated alcohol towards which many people gravitate as they become more successful. Saying that, however, the specific details of how business is conducted are quite different. To cover such a wide market, you must have strong regional teams that understand the local way of doing business, but which nonetheless stick to the overall company strategy.
Meininger's: Have you recruited abroad for given skills?
St Pierre: No, not really. Most of the expatriate staff are people who were already in China and understand the culture. Knowing a lot about wine and nothing about China is a recipe for disaster.
Meininger's: It is often said that the most interesting area of growth for China lies in the 'second cities' with populations of one to five million. Is that true?
St Pierre: I think that is an over-simplification. There are still enormous growth opportunities to be had in the first tier cities because local consumers are only just now beginning to appreciate imported wine. Having said that, I agree that the second tier cities provide fantastic opportunities as well, which is why we are expanding the number of offices we have in China and will focus more on developing distribution into those somewhat smaller cities.
Meininger's: Education is clearly the key to building the market. How are you involved in this?
St Pierre: ASC employs eight full time educators and invests enormous resources in training our sales staff so that they are able to conduct basic wine education courses with our customers throughout the country. ASC was China's first authorised program provider for WSET and conduct a minimum of one wine related educational event every day of the year, often more.
Meininger's: You were arrested for misreporting duties. What exactly happened?
St Pierre: In early March 2008, ASC was visited by Chinese

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customs as part of an industry wide review of import procedures for all wine companies operating in China. The investigations focused on the declared value for the most expensive imported wines, mainly top Bordeaux. As you know, the price of some of these Grands Crus has increased dramatically since their release and customs felt that there was a discrepancy between their current market price and our declared value. Because I am the legal representative of ASC, customs had the right to detain me for up to 30 days while they conducted their investigation. I was released after 28. ASC and China Customs then agreed to a maximum discrepancy of RMB1.8m ($250,000). Given that the investigation reviewed our entire import history from January 2006 to March 2008, this sum represents less than 1% of the total duty we paid – and at no time during the investigation did China Customs interfere with our day-to-day operations. And it was not just ASC, many other companies are still involved in this industry wide investigation. Overall, we feel that the end result will be positive for the industry as it will level the playing field and ensure more consistent policy procedures in the future.

Meininger's: You not only announced record sales in 2007, but also strong growth for the first months of 2008. Is this kind of growth sustainable?

St Pierre: Though July 2008 our sales revenue was still growing at a rate of 45% year-on-year, so that we now expect total sales in 2008 to exceed $100m. Further, we have full confidence that this type of growth is sustainable into the future given the large number of opportunities that exist.

Meininger's: What effect did the Olympics have?

St Pierre: They had a positive effect not only because of the large number of new hotels and restaurants that opened in Beijing but also, like it did for Seoul in Korea in 1988, the Olympics have changed the world's perception of China and, perhaps more importantly, China's perception of itself. Most people outside China do not yet realise that the country's future growth will be fuelled more and more by domestic consumption and less by low cost exports. The more exposure China has to the outside world, the more likely local consumers will be interested in products like wine.

Meininger's: Where do you see the market in ten years?

St Pierre: China imported 18.6m litres of bottled wine in 2007. We estimate that this figure will increase by about 35% this year to 25m litres, or some 2.8m cases. The total domestic market for wine in 2008 will likely be 60m cases, hence imported bottled wine accounts for only 5% of the market by volume. In 10 years, I expect bottled wine imports to exceed 17m cases, with the domestic market growing to about 100m cases. If that happens, imports' share would increase from 5% to 17%.

Meininger's: Can you describe your core customer?

St Pierre: If we define a customer as the end consumer, it is likely a local Chinese working in a privately held company making more than the RMB equivalent of $4,500 or a foreigner working in China making more than $15,000 a month. If we define customer as trade, it would be a four or five star international hotel, an independent Western restaurant or a high end Chinese restaurant. The on-trade makes up about 55% of our business by value, the off trade about a third and direct sales to private clients the other 12%. The latter, however, account for only 3% of volume. Moving forward, I definitely see the on-trade continuing to make up the largest share of our business, especially with the growth opportunities for high end Chinese restaurants.

Meininger's: How is the off-trade changing?

St Pierre: For imported wine, the off-trade is still poorly developed and dominated by a combination of foreign owned hypermarkets like Carrefour, Wal-Mart or Tesco and high end department stores with fine wine shops. All have massive expansion plans, so they will continue to play an important role, but eventually the local importers and retailers will demand a larger selection of better quality imported goods to compete. The market is changing quickly and eventually they will become a larger competitive threat than some of the current importers we are now competing against.

Meininger's: What price points work in China?

St Pierre: Off premise, you need a retail price of RMB50 to RMB 90 per bottle ($7.00 to $13.00) to move any significant volume. On premise, most wine moves at RMB300 to RMB800 ($44.00 to $117.00) per bottle. You also have demand for the ultra premium price segment, but that is primarily the top chateaux from Bordeaux.

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Meininger's: What is the shelf price of a bottle that leaves the cellar in southern France at €2 ($3)?
St Pierre: Off premise, it would cost about RMB65 ($9.50) or RMB70. As freight, excise, duties and such have a smaller impact on more expensive wines, the mark up diminishes. A €5 bottle would probably retail for RMB150 to RMB170 ($25.00). Above €10, we might be talking about as little as RMB250, which, in a way, means that the more expensive wines are comparatively cheaper.
Meininger's: Are listing fees in China exorbitant?
St Pierre: Yes, the market was weaned on the beer and spirits model, so this is definitely a major challenge for wine distribution, especially as you focus more on local Chinese market penetration.
Meininger's: It is sometimes said that the Chinese have no wine culture. What is your view?
St Pierre: China has a strong culture for alcohol, but certainly not a 'wine culture' as we define it. There are, however, similarities with their Huang Jiu, or Yellow Wine, in that it is aged and usually consumed with food – and there are even stronger similarities between China's tea and our wine culture. Overall, though, I do not see their lack of wine culture as being a barrier to the future development of wine sales. They understand the importance of site from tea, the importance of aging from yellow wine and the concept of food and beverage matching.
Meininger's: What sort of wines work particularly well?
St Pierre: A brand that has strong labels from the entry level up to the super premium price point usually does well. Santa Rita [from Chile], for example, has received international recognition for its value for money entry level range, good marks for its excellent wines in the Reserva range and then accolades for some of the highest rated wines from Chile. That is a concept that consumers here understand.
Meininger's: Don't French wines have the largest market share?
St Pierre: Yes, by far, in particular if you look at value. About half of our turnover in value is done with French wines. Australia follows with 20%, Italy with 8% and the USA with 7%. South America, including both Chile and Argentina, does about 7% as well. South Africa is only half of that.
Meininger's: Are rising prices for the finest French wines affecting your business?
St Pierre: We still sell a lot of high price claret, but, yes, value is becoming an issue, especially for regular drinkers. This is why Chilean Cabernet Sauvignon, in particular for banquets, is beginning to take off. However, the gatekeepers are influencing this development. There are still so many new consumers coming to the market as occasional drinkers and they generally want the best.
Meininger's: How many Chinese actually drink wine?
St Pierre: Probably only 400m Chinese out of the total population have the means or interest to even try wine. Of those, I would guess 2.5% might drink wine on anything near a regular basis. That would nonetheless be about 10m. Currently wine is only 5% of total alcohol consumption in China – and that includes Chinese wine, which might not be wine at all. It doesn't take much imagination to think that wine might be 10% of the market in ten years time, with a larger percentage of that being either imports or better Chinese wines.
Meininger's: Chinese prefer red wines, but don't whites work better with the food and climate?
St Pierre: Generally speaking, yes. White wine works better, but not so much because of climate, more because of food. The Chinese normally have a wide variety of dishes on the table at one time, which everyone shares. Somewhere within the mix of food there is going to be spicy or sweet foods, which do not work very well with wines that have a lot of tannin. The consumer, however, prefers red, which as a colour is associated cultural with strength and power.
Meininger's: Is China now your home?
St Pierre: My wife is from Shanghai. We have two daughters, so I'll be here for a long time. ■

This is an excerpt from a longer Interview.
Read the full text at www.wine-business-international.com

Factbox:

Turnover in value 2007:	$73m (RMB500m)	Turnover in volume 2007:	325,000 9 L cases
Turnover in value 2002:	$9.2m (RMB63m)	Turnover in volume 2002:	64,000 9 L cases
Turnover in value 1997:	$2.2m (RMB15m)	Turnover in volume 1997:	10,600 9 L cases