

# OPPORTUNITIES FOR SOUTH AUSTRALIA IN RED WINE

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This fact sheet presents a high level summary of the opportunities for South Australia to supply red wine to the eight countries analysed through the Functional and Luxury Foods Research Project.

Australian wines are seen as 'new world' wines and as such often are discounted as a luxury wine in preference to established, usually French, wines. There is a growing awareness and acceptance of Australian wines as being comparable to French wines but there is still a way to go.

**CHINA** Chinese consumers show a strong preference for red wine. About 80% of wines consumed in China are produced locally. Red wine not only pairs well with Chinese cuisine but is perceived to have health benefits. French wines, particularly those from Bordeaux are synonymous with luxury in the Chinese market; however, there is growing interest in luxury wine from other countries such as Australia and Spain. With the current austerity measures implemented by the Chinese Government, luxury wines from outside France that offer comparable quality at a lower price point are expected to be in higher demand. 90% of all wine consumed in China is red wine.

**HONG KONG** Hong Kong is the third largest financial centre in the world, with a sophisticated clientele in relation to luxury red wines. All major producers of red wine export to Hong Kong. The strong socialising culture across the country adds to the demand for the product, fueled by the recent removal of import duties. There is no local production of red wine in Hong Kong.

**INDIA** Approximately 75% of the wine consumed in India is produced locally. Wine is becoming popular amongst younger Indians, particularly young urban professionals. Major metropolitan cities such as Mumbai and Delhi have the highest consumption of wine due to the prominence of High Net Worth Individuals, families, and western expatriates. Over past few years, Goa's tourism industry has also contributed to increased wine consumption. Bangalore, the IT hub of India, is home to a large population of educated young Indians with relatively high disposable incomes who have developed a taste for wine. Both the United States and the European Union argue India imposes additional duties on top of basic customs duty, making imported wines and spirits prohibitively expensive. Luxury wine is still a relatively unknown concept in India, except among the nation's elite. However as India prepares to enter a new phase in its economic growth, a new generation of well-heeled consumers are expected to use luxury wine purchases as a means to assert their status in society.

**INDONESIA** Almost 80% of wine consumed in Indonesia is red wine, particularly from France and Italy. Wine consumption in Indonesia is linked to perceived social status. Red wine is mostly consumed in Jakarta, whereas white wines are more popular in Bali, largely influenced by the palates of western tourists. Red wine sales have improved in recent times, due in part to the prevalence of wine tasting events and trendy wine bars across Indonesia.

**JAPAN** Japan's main target market for red wine is older, affluent consumers who seek premium products in small quantities. More Japanese women are entering the workforce and earning greater disposable incomes, driving the popularity of red wine. There is no local industry for wine production in Japan, and the demand for imported products is strongest for red wines with strong copyright and IP protection.

**MALAYSIA** Malaysia is a relatively small consumer of red wine, with consumption mainly centred on tourists and urban areas. Australia is the dominant red wine exporter to Malaysia with around 48% of the market share. There is increasing demand from younger Malaysians, who see red wine as a healthier alternative to distilled spirits, and a product to enhance their social standing. Cabernet and Shiraz are currently the preferred varieties in Malaysia, but different import duties apply to different types of wines. There is no local wine production in Malaysia, due to the unsuitable environment.



## SINGAPORE

In Singapore, there is a positive consumer perception of the health benefits of red wines, by virtue of the rich polyphenol content. Demand for luxury red wine is growing, prompted by the increasing number of fine dining restaurants across Singapore, the influx of wine brands into the country, and the new types of wines becoming available in the market. The Singaporean government recently passed the Liquor Control Bill which will see restricted hours of sale for take-away alcohol and consumption in public places. Import duties on alcoholic beverages was increased by 25% in 2014.

## SOUTH KOREA

In the drinking culture of South Korea, wine consumption is traditionally seen as an indicator of social status. However, wine accounts for only 2% of total alcoholic beverage sales in the country. Red wine is particularly favoured for its strong, intense flavours that complement Korea's garlicky foods. Coupled with rising incomes and the recent removal of import duties, there has been a significant rise in demand for red wines, particularly in high-end restaurants, but in-home consumption is also becoming more popular. South Korea does not have favourable conditions to produce wine locally.

## OPPORTUNITIES FOR SOUTH AUSTRALIA

Given the high margins in the luxury wine segment, the high operational cost impacting most other Australian produce will be less of an issue for the market. The larger challenge will be for South Australian luxury wine producers to establish reverence in the hearts and minds of the Asia Pacific consumer.

- The two primary sources of reverence in this market are historical pedigree and critical endorsement. While endorsement can be achieved through producing a superior quality product, a historical pedigree is much more difficult to emulate, at least in the eyes of the consumer.

Penfolds Grange has gained traction in the Asia Pacific market, particularly in China. The company continues to build its brand in the region, and even launched its latest vintage in Shanghai as part of Penfolds 2015 Collection, making it the first time the company has launched a vintage outside of its spiritual home, the Barossa Valley.

- Sophistication often follows wealth. While the Asia Pacific market may have been impressed by the historical pedigree of French wine, increased exposure to the global market place is expected to create a class of wealthy oenophiles that will seek to distinguish themselves from the masses. The goal for South Australian luxury wine producers would be to reach this segment, educate them on the distinctiveness of their products and make them willing brand ambassadors.

- While the large, but shrinking, 'luxury wine gifting' market will likely continue to be dominated by the Bordeaux premier crus, there is a growing opportunity in the self-consumption market for wines from the 'New World'. Private consumption of luxury items is often a far more rational, planned and deliberate process compared to public consumption, which is largely done to establish a high social standing. The notion of 'self-reward' lies behind consumer motivation in private consumption of luxury items.

For example, certain consumers who have experienced rapid financial and economic gains appear particularly prone to the need to reward themselves for their success. This has little to do with impressing others in their social circle and is more focused on the need for personal contentment. Once again, wealthy and sophisticated oenophiles will be an important segment in this market.

- Ensuring traceability through the supply chain will be increasingly important for South Australian producers, as counterfeiting of wine is widespread in Asia, particularly for premium and luxury brands. The ability to demonstrate traceability of origin and minimise any counterfeiting is therefore important for South Australian producers, and the use of traceability technology could provide a source of competitive advantage against competing countries and regions.



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South Australian Food Innovation Centre | Phone: (08) 8226 0109  
Email: [PIRSA.foodinnovationcentre@sa.gov.au](mailto:PIRSA.foodinnovationcentre@sa.gov.au)

