

THE FWC/STONEBRIDGE CALIFORNIA FINE WINES PROJECT IN CHINA

The initial FWC/Stonebridge California Fine Wines Project in China received funding from the US Foreign Agricultural Service, under its Emerging Markets Program, on April 2, 2013 for \$369,000.

On September 15, 2015 we received our second year of funding from the FAS for \$430,666, for a near doubling of project activities.

Stonebridge Research Group is the executing partner for the project, to which FWC provides “in-kind” support, primarily in the form of contributed staff time for proposal review, logistics support and similar activities. This in-kind support from FWC, along with a substantial amount of the time Stonebridge staff invests in the project along with non-reimbursable out-of-pocket expenses absorbed by Stonebridge, provide the matching cost share required by the Foreign Agricultural Service, currently about 10% of total project cost.

The project has focused on professional education for China’s wine trade and development of awareness and appreciation of California’s Fine Wines by key opinion leaders among China’s wine consumers. We also presented a webinar on exporting to China, with in-depth information ranging from market structure and strategy to shipment logistics and contract and brand registration issues.

Our First Year

in our first year, programs were focused on Shanghai, China’s most developed wine market, and Chengdu, a key “emerging” wine market in China. For our second year, we added Beijing and Guangzhou and committed to significantly increase the number of classes and event while adding efforts for wine tourism, development of viticulture internships, expanding media outreach and exploring wine promotion activities.

The Rudd Center for Professional Wine Studies is our education partner, for whom Tim Gaiser MS, developed an outstanding California Fine Wines Professional Class, which has been described by participants as the “best wine education we ever had.” The class covers all of California’s fine wine regions and includes a tasting of 20 of those wines. At the request of several of China’s F&B Directors, Tim also developed the first Professional Wine Service class in China, based on the Advanced Sommelier curriculum. Each class was invitation only to the wine trade and, in year 1, was limited to 30 participants. In the course of year 1 we conducted 8 classes, serving 57 different wines from 39 producers in 19 AVAs in 6 counties, and 8 private client events reaching 180 key opinion leaders among wine consumers, including dinners hosted by Sotheby’s and the Shanghai Presidents’ Roundtable.

In the summer of 2014 we conducted our first California Summer Intensive, bringing 6 of China’s top wine educators to California for 13 days, beginning with 4 days at the Culinary Institute in St Helena, training with Tim Gaiser, MS, to teach his California Fine Wine Class (divided into Level One and Level Two) in China, for each of which they must pass a certification exam with the Culinary Institute. (Four of these six participants have qualified as both Level One and Level Two instructors, with the two others qualifying as Level One instructors. Three of the six are also now among China’s first MW candidates, one of whom is also China editor for Robert Parker and Decanter and another of whom is the first wine buyer for Amazon’s new wine vertical in China.

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Students of these instructors may choose to take an exam prepared by Tim Gaiser, to qualify for a Level One or Level Two Award in California Wine from the Culinary Institute and membership in a “California Wine Scholars Society” we are creating, to have some presence competitive with the highly-Francophile WSET system and the Australian A+ education program, which currently dominate the Chinese market. We have just delivered the first 3 such awards. (Gaining CIA agreement on the language of this arrangement delayed this program for several months.)

Our Second Year

Classes

We began our second year of programs with classes in December 2015, followed by March and June 2016. We also added a Professional Wine Sales Training class when we discovered that no one provided such training in China, explaining why selling often amounted to little more than presented a bottle of Bordeaux; Tim Gaiser drafted another Master Sommelier, Reggie Narito, VP Fine Wines of Young’s Market, to teach the class, which we first offered in June 2016 in Chengdu and Shanghai. We raised the participant limit on our classes to 40 — but most classes are now over-subscribed with more than 50 students each and a waiting list. Over 9 months we have now offered 12 classes for 428 students, plus 3 Level One California Fine Wines seminars [at the Chengdu Wine Pre-Fair] for 138 participants, given in Mandarin by instructors we trained in California. Across these programs we poured 58 wines from 38 producers in 7 counties.

Private Client

We have conducted 8 private client programs, reaching 135 individuals so far in this program year, including wine dinners hosted by the Four Seasons Hotels in two cities the board of the American Chamber in Chengdu, small receptions for young entrepreneurs in Shanghai and Beijing.

Vineyard Intern

We have arranged for our first vineyard intern from China, in cooperation with Beijing Agricultural University. A candidate for a Masters in Viticulture from the University, she will be an intern with Larkmead Vineyards starting on August 15th, 2016. The only previous Chinese viticulture intern in California worked with Delicato Family Vineyards two years ago. We hope to be able to grow this program in the future. Previously, all Chinese viticulture internships were to Europe, Australia or New Zealand.

Summer Intensive

We have just begun the 2016 Summer California Intensive. We have increased the number of participants from 6 to 10, with 2 more days of winery visits. Over the course of 15 days, the group will visit a total of 35 wineries in 7 counties. (Visits are quite intensive, with meetings with winemakers, vineyard managers and particular interest in vineyards and history.)

We are the only California wine project in China whose education program is regularly (not just on special occasions) taught either by top US wine educators and by Chinese educators with formal and intensive training in the US. Also the only US wine project in China to offer professional certifications — one quickly learns that Chinese culture highly values such certification. Simultaneous translations are offered in all programs and all materials are bilingual. The education program has been repeatedly called the “best wine education” offered in China.

Wine Tourism

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We have found that while there is great deal of discussion of wine tourism, most of the more sophisticated work has been focused on Europe and Australia. The limited information most Chinese have about California's fine wines has construed interest in California's wine tourism to date. (To put this statement in context, the average *case value* of bottled wine imports to China is less than \$40. 90% of the California wine sold are wines that do or would sell for less than \$5 per 750mL in the US. The industry's marketing has largely been generic and focused on least expensive volume wines. At the same time, the only wine region most Chinese will recognize is Napa — and then few will know brands other than Opus One and, possibly, Screaming Eagle.) Moreover, most of the tour operators participating in outbound China programs have limited knowledge of the wine industry and thus focused primarily on the very largest, most visited sites.

We are now in the process of identifying several partners with customer bases interested in the fine wine category and with the resources and interest for luxury travel and spending, often emerging from our private client program.

Fine Wine Importers

While we have worked closely with top F&B Directors since we conceived of this project, we have now built these relationships to the point where we are discussing specific promotion programs with our venue partners about promotion programs for participating wineries, such as by-the-glass options, tasting menus in top restaurants with wine pairings and visiting chefs, possibly across entire chains. (When we began this project, we were generally told that “only foreign visitors” were interested in wine by the glass — but now it is clear that by-the-glass sales are becoming much more significant with domestic customers, in both bars/lounges and fine restaurants.)

Our first focus in the project was on the quality of importers with whom California's fine wine producers were partnering in China, as very few producers had satisfactory sales or payment experiences. We define quality importer as those who have the capital to hold inventory (properly) and pay their bills regularly and on time, who have a sales force and account relationships and have experience and expertise in wine sales and marketing — basically the same criteria one would use in choosing a US distributor.

We initially had a list of about 10 such importers, developed from the trade and from peer recommendations, with another 10 “up-and-coming.” Most of these companies carried few if any California fine wines, complaining either that there was no industry or producer support or they were too hard to sell (reflecting the largely generic, low end marketing by the industry as well as the often weak marketing support by suppliers, with the dramatic exception of Opus One and a handful of other producers.)

However, in the last 18 months interest among quality importers has clearly grown, while the changes in the Chinese market and economy has undermined several of the “up-and-coming” group and forced many of the very small, opportunistic, importers — many of whom had sought out California producers — to close. As the importers say, now that they are actually “selling wine to the people who actually drink it” (as opposed to state companies for banquets and other people for gift giving, primarily to government officials), they are finding that consumers are more adventurous and often prefer California wines when they try them. This trend is most evident in the most developed wine markets, such as Shanghai and Beijing. Even importers who have exclusively worked with top European producers are becoming interested in California, with which they are still pretty unfamiliar — they have been coming to our classes, asking about winery contacts.

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Thus, we are increasingly introducing producers to a variety of highly recommended importers with whom they have otherwise been unfamiliar and who do not tend to be the usual importer groups recommended by usual sources of export advice.

Status and Issues

We are now nearing the end of our second year. We had contemplated one more round of education programs, to deliver the Professional Wine Sales training classes in Beijing and Guangzhou, repeat the California Fine Wines classes in those cities and conduct several major private client programs (e.g. a major donor dinner for Shanghai's top charity, a dinner for Sotheby's top customers in Beijing and Guangzhou) and initiate some special promotions (a special wine and food tasting menu across the Four Seasons' hotels top restaurants along with by the glass programs in selected venues) this year.

However, we have exhausted the funds available to us, which Stonebridge has been subsidizing so far, essentially marketing California fine wines with our own funds. (The FAS withholds 15% of the total grant until the final report is approved. It assumes that industry matching funds provides the cash flow for project related activities until reimbursement is authorized. However, since we receive no industry cash funding and we provide the cash matching funds as well as substantial in-kind uncompensated time, we cannot advance still further funding to the project ourselves.) We expect to proceed directly to doing final evaluations and our final report.

We then need to decide if it is viable to propose a third year for the project, which the FAS has told us they will favorably consider. Such a project will not be feasible unless the industry assumes at least part of the cash element of the matching cost burden, possibly through a combination regional contributions and individual company sponsorships.

The basic assumption on which we have built what is now seen as a very successful and effective project, that the way to build the market in China for California fine wines is to focus on *showing the best of California's wines*, through targeted education and private client development, while helping producers select quality partners, would not change.

Apart from the financial challenges, the biggest constraint we have faced is that the Emerging Market Program provides year-by-year funding (as compared with the much larger 3 year funding available under the Market Access Program, controlled by the Wine Institute, with apparently evergreen status.) Once a proposal is submitted, there is no feedback as to status or timing until receiving formal notification, usually several months later, of approval or rejection. And the clock starts as soon as the project is approved, although some time extension is allowed. (And a year may be 15 months, as it is in this our second year.) Thus, there is not only a lag between activity periods but little planning time once the clock starts. The budgets available are also far more modest — thus, we nearly doubled our activities with about a 20% increase in funding and still received one of the largest EMP grants. This has proven challenging in engaging a representative in China to help with onsite planning, coordination and logistics of this multi-element program, throwing much of that work back onto Stonebridge as well.

We also do not arrange our own wine shipment for the project — having neither the time, human or financial resources to do so. (The FAS does not reimburse either shipment or payment for the wine itself, expecting that to be an industry contribution not even eligible for matching credit.) Thus, we need to impose on suppliers and importers for samples for multiple

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events, each of which is a negotiation, an understandable but time consuming element of the project. We are enormously grateful that most suppliers and an increasing number of importers have cooperated and been highly supportive of this intense program.