USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.07

Voluntary Report - public distribution

Date: 2007/6/13

GAIN Report Number: TW7027

TW7027

Taiwan

Wine

Wine and Spirits Market Update

2007

Approved by:
Keith Schneller, ATO Director
American Institute in Taiwan

Prepared by:
Jeff Miller, ATO Marketing Specialist

Report Highlights:
The market for wine and spirits in Taiwan, still an important trendsetter for the Greater China market, has grown significantly since 2001. Distilled spirits continue to dominate sales (54% of total volume), with whiskey representing the largest (65%) component of such. While the United States continues to gain ground for its grape wines among Taiwan consumers, distilled spirits continue to be dominated by premium suppliers from the U.K. and France. Although U.S. suppliers lack the cultural cache essential to break into the high-end spirits market, the market offers significant potential if the U.S. spirits industry were to take an interest in developing into this very lucrative market.

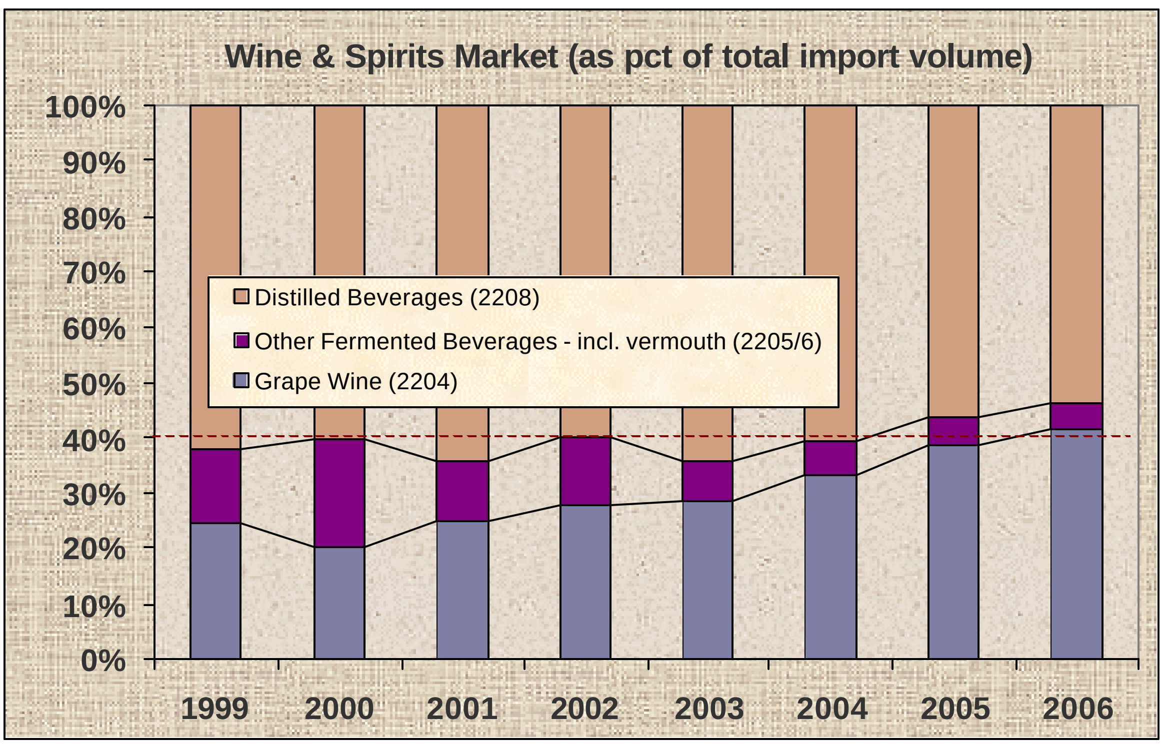
Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Taipei ATO [TW2]
[TW]

Background

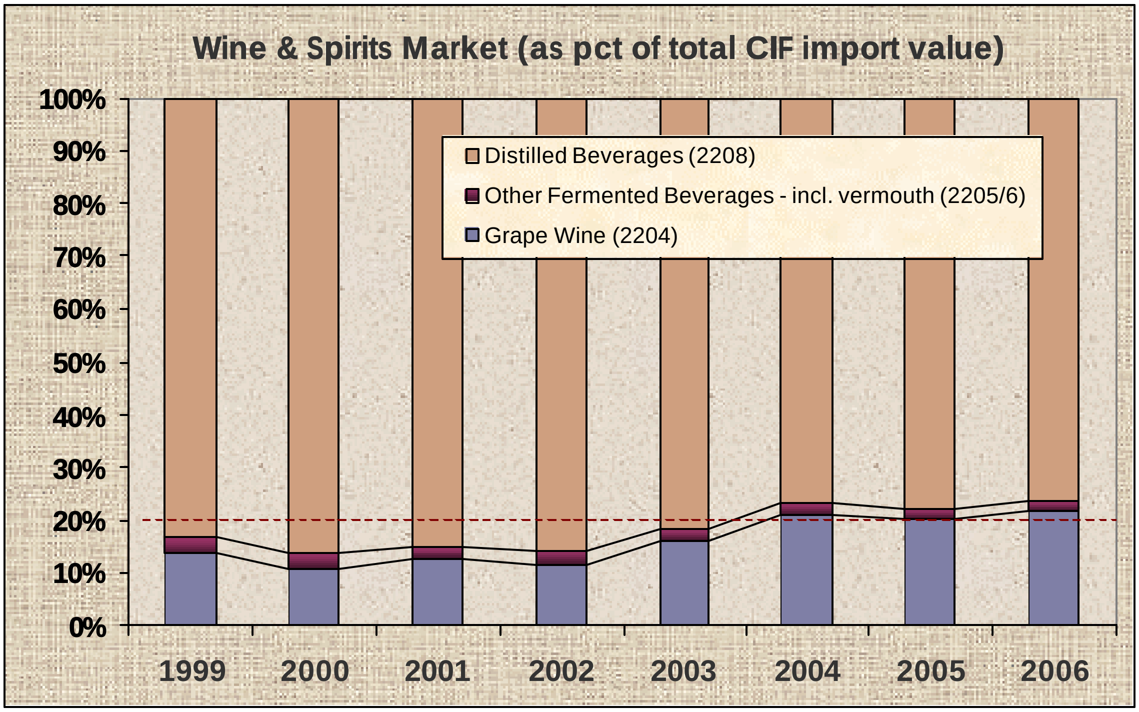
The Taiwan market for wine and spirits has roots that run long and deep. Like many markets in East Asia, the Taiwan market has long been familiar with grain-based alcoholic drinks - both fermented and distilled. The 50-year period (1895-1945) during which Taiwan was ruled by Japan further inculcated a familiarity and appreciation for rice wine (sake).

Unlike fermented beverages (e.g., grape wines), mainstream western distilled spirit products fit relatively readily into traditional Chinese/Taiwanese drinking habits. Brandy, whisky, etc. share characteristics similar to traditional distilled Asian grain spirits and, to a significant degree, share a similar qualitative "depth" (e.g., in terms of ingredient use, processing / storage methods, and aging) and inferred "cultural depth" (i.e., drinkers' participation in a venerable tradition that enhances social interaction, relaxes social barriers and welcomes discussion and comment).

Brandy and whisky have been an accepted part of life at the top of the Chinese "social pyramid" for more than a century. Expensive and consumed almost exclusively in social settings, western distilled beverage have consistently served as symbols of status, disposable wealth and indulgence between social/business contacts and friends. Grape wine, while making impressive gains in recent years in terms of status and consumption, still lacks the cultural roots that distilled beverages have in Asian culture, and thus demands more of the consumer in terms of crossing cultural and taste barriers in order to appreciate and feel comfortable in using grape wines at the center of social and business gatherings.



Thus, with their friendliness to the Asian palate, cultural caché, and high unit price, premium western distilled drinks remain king of the hill in terms of Taiwan's overall wine and spirits imports by a wide margin. Distilled beverages (HS code 2208) accounted for 62% and 54% of overall wine and spirits import volume in 1999 and 2006, respectively. In terms of distilled beverage categories, whisky dominates (65% of distilled spirit import volume in 2006), followed by brandy (10% of distilled spirit import volume in 2006). These percentages are significantly larger when the same calculations are run based on value rather than volume.

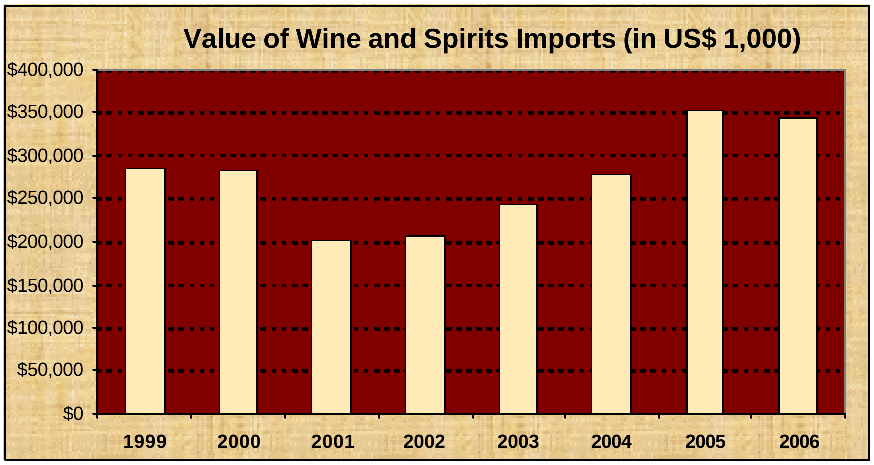


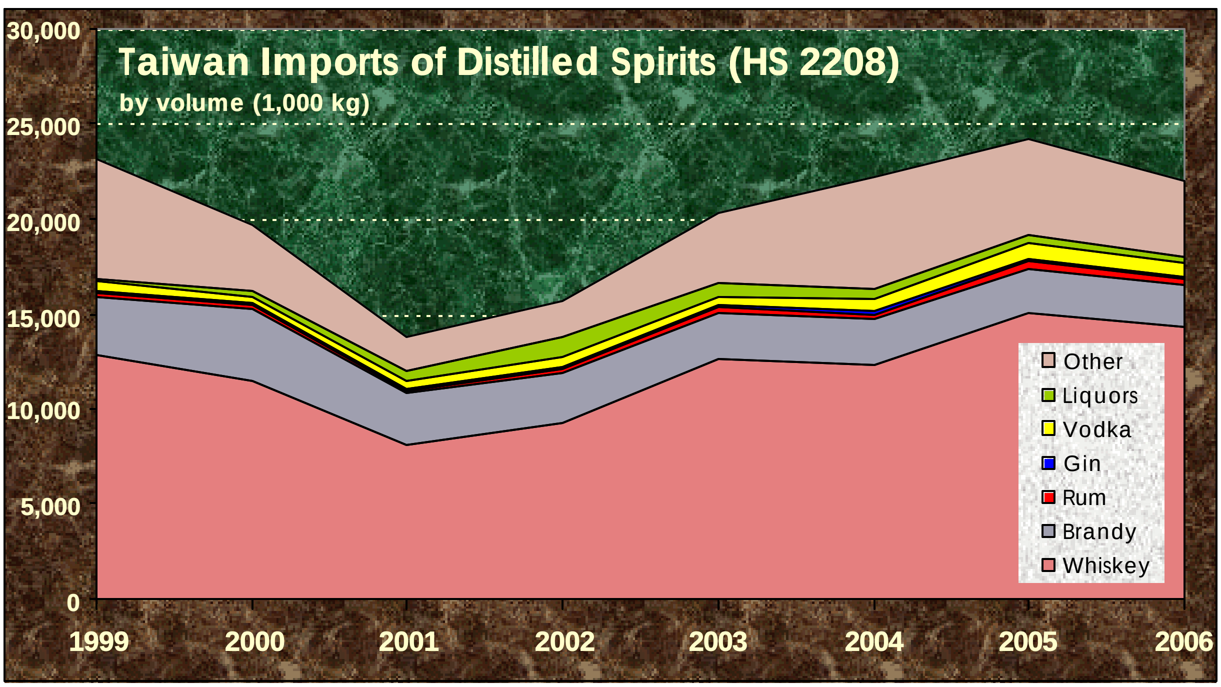
The Post-2000 Market

In terms of volume and value, the wine and spirits market has experienced a significant recovery since 2000-2001, when economic troubles in the technology sector, a collapse of the "speculative" market for grape wine that predominated in the 1990s and general worries about the spread of avian influenza (SARS) combined to slash consumption of "social" consumables and significantly reduce the size and frequency of social gatherings. Distilled spirit and grape wine sales have risen 37% and 221%, respectively, in terms of volume since 2001, with the whiskey subcategory gaining 76% during the same period.

The post-2000 market for wine and spirits is significantly more mature in terms of both importer and consumer sophistication. Pre-2000 imports focused on traditional old world suppliers and enjoyed relatively high per unit profits on high markups that took advantage of consumers' general lack of awareness of labels and prices. Increasing consumer sophistication with regard to labels, production regions/countries and quality has fed back to importers who have, since 2000, focused increasingly on building brands and adding depth to category offerings. In an era of easy access to overseas retail prices – especially for established wine and spirit labels – Internet savvy Taiwan consumers can quickly compare domestic sticker prices to those in the United States, the EU and elsewhere to assess value for money on their domestic purchases.

Rising consumer sophistication and increased risks for wine and spirits importers (the result of thinning per unit profit margins) have also driven importers to improve their handling, storage and delivery systems. While storage continues to remain a problem for some retailers and distributors in subtropical Taiwan, most are careful to handle their stock in conditions properly controlled for temperature and humidity.





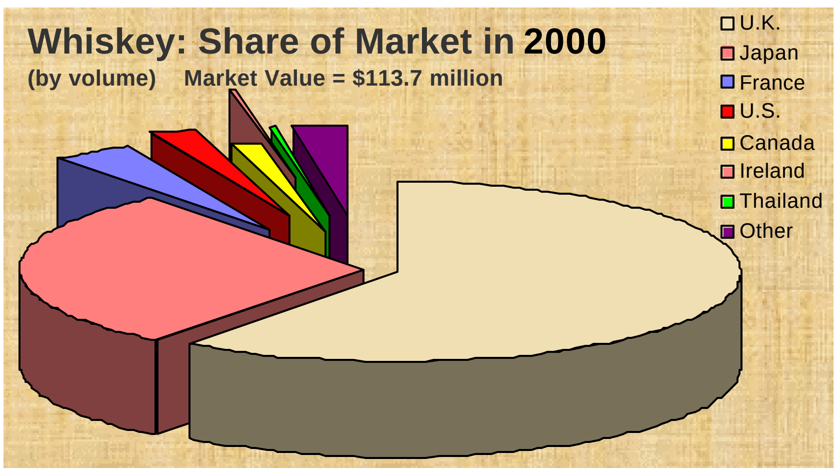
Opportunities for Growth?

With increasingly sophisticated consumers at the top of the market and a growing number of consumers becoming wine and spirits (particularly wine) consumers at the lower end, U.S. exporters are encouraged to identify which slice(s) of the market offers the greatest opportunity for sales and then tailor an appropriate follow-on strategy that includes selecting an importer / distributor with the appropriate sales channels and developing appropriate marketing support and training programs. While it is true that some major wine labels (e.g., those highly rated by widely-published experts) may need minimum marketing support for successful sales, most will benefit greatly from a well-targeted marketing program to make sure a label becomes familiar and respected among target consumers. Also, national trade offices are, to varying degrees backing entry of their country's wine and spirits into the market. Countries with active marketing programs targeting wine in Taiwan, in addition to the U.S. (California Wine Institute) include France, Chile and Italy. Significant growth in recent years has encouraged competitors to increase their attention to this market, with visible success.

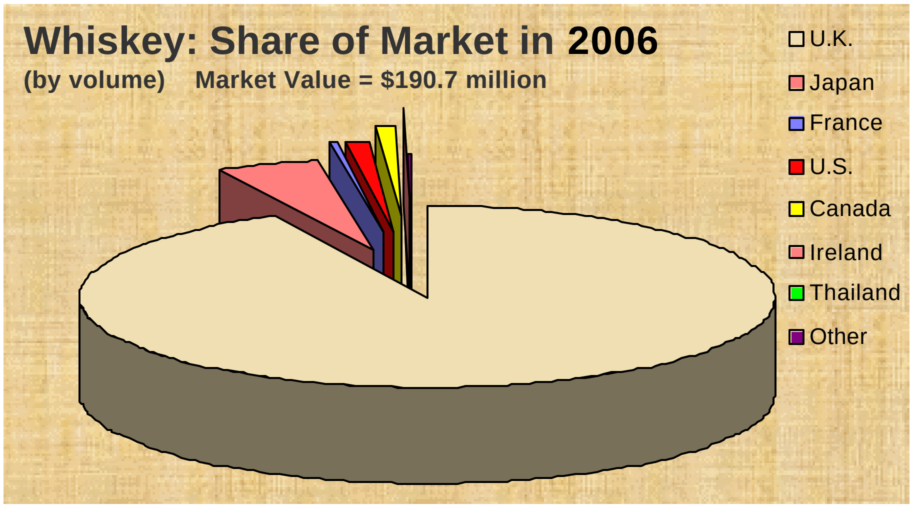
Grape wine, as a "new" taste to the Asian palate, certainly has more room to grow in terms of depth and breadth. Wine is now accepted as a fashionable beverage to enjoy at banquets, low-key social gatherings, receptions and – slowly, but surely – in the home. Even at the entry level, Taiwan consumers are curious to try different production regions, varietals and levels. While European-style wines still enjoy a first-comer advantage, most consumers are aware of New World wines and recognize California as one of the world's top wine producing areas.

At the lower end, price remains key. French wines, backed by favorable pricing from producers and the support of Taiwan's two leading hypermarket chains (Carrefour and RT-Mart, both French owned), have continued to press forward with their leading position in the market with a high volume, low pricing strategy that in recent years has focused competition for entry level wines on the unprecedentedly low NT$199 to 299 price range (approx. US$6.00~9.00).

At the higher end, quality, marketing and technical / education support are key to developing and growing label sales. Carefully vetting and selecting an agent based on their current product offering and sales channels will go far in ensuring long-term success. Appropriate marketing and education support, particularly during the initial stage of business, is typically needed to back importer/distributor sales and marketing through their channels.



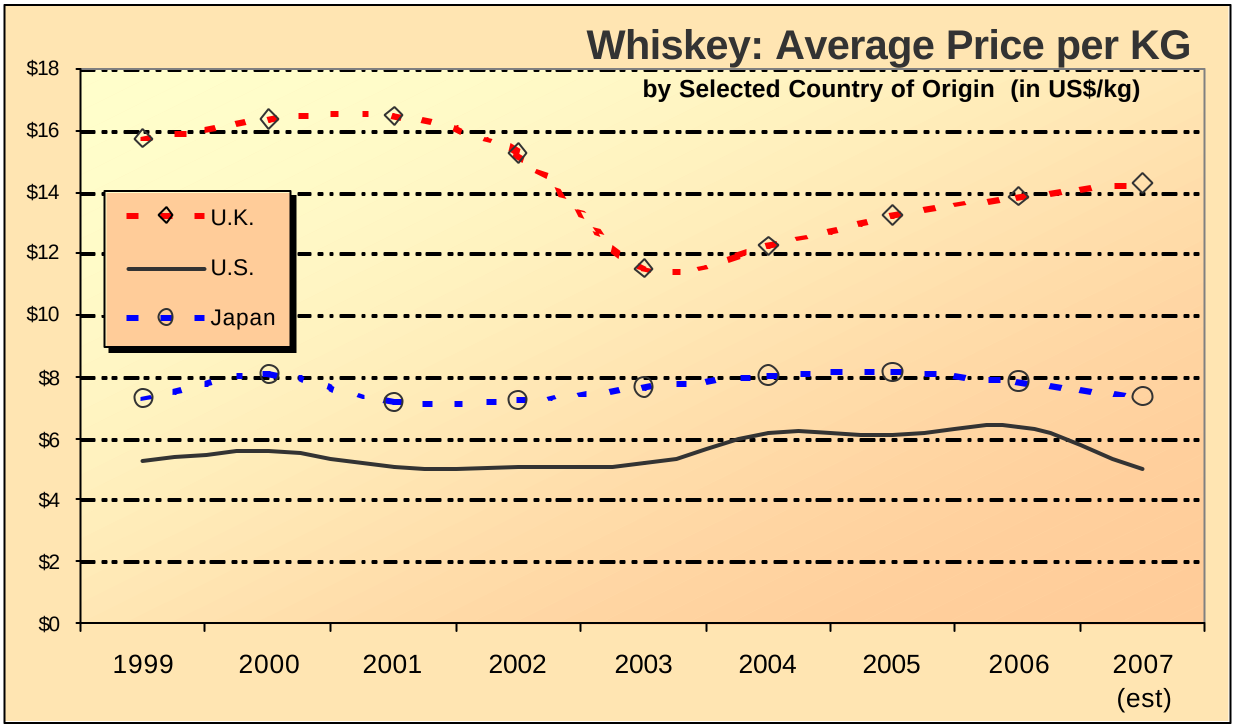
Whiskey and brandy, as established "status" drinks, are, to a much greater degree than grape wine, affected by marketing and fashion trends. Brandy / cognac, heavily promoted and consumed in Taiwan through the 1990s as a drink of the elite and the successful, has since been eclipsed by single-malt whiskey as the most fashionable drink with which to seal strategic partnerships, impress friends and generally establish yourself as part of the "in" crowd. Label and reputation are keys to sales, with price (in the mid- and premium-price ranges) often having a positive relationship to demand.



Single-malt whiskey, purchased with an eye toward image value and consumed in high value social settings, is a classic luxury product designed to reflect positively on the buyer. Therefore, as with luxury products from designer fashion to sports cars, price is of secondary importance. As illustrated in the two graphs comparing the country of origin of whiskey sales in 2000 and 2006, whiskey sales have experienced a major consolidation around U.K. suppliers – the home of single malt whiskey – to the detriment of other suppliers (e.g., Japan, France, U.S.). This has in turn fueled an even more significant rise in market value as consumers pay significantly more per unit for U.K.-origin whiskey than for whiskey from Japan and the United States (see graph below).

Landed CIF Value of Whiskey

as calculated from Taiwan Customs Data

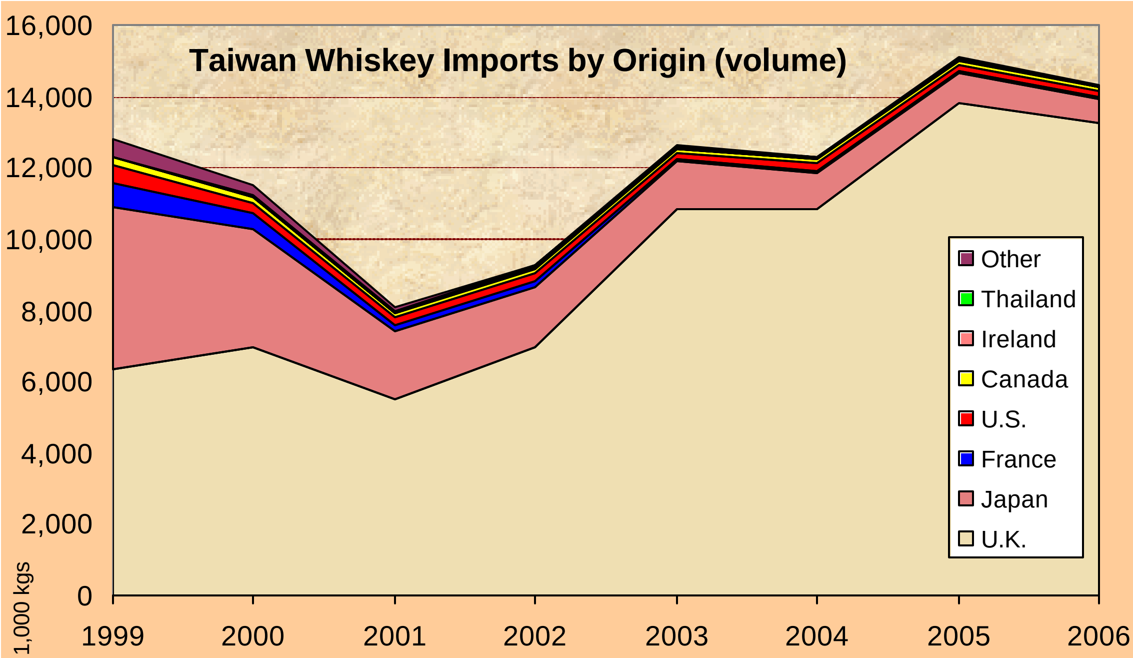


In general, U.S. origin spirits, including bourbon, rum, and vodka, among others, do not offer the caché that U.K. whiskey and French brandy do. Therefore, market share for such products remains quite small, largely competing in the mixed drinks and second-tier markets where price per unit is significantly more important.

However, Taiwan is a dynamic consumer market that both welcomes new products and offers good potential for product sales in categories where two conditions can be met: 1) flavor profile / product format fits into the accepted "universe" of Taiwanese culinary tradition and 2) a story can be told that captures consumer interest and curiosity. In terms of the former, distilled spirits, as described above, fit well into Taiwan's culinary landscape. In terms of the latter, products such as rum and bourbon draw on traditions that extend back many centuries. Creating consumer interest and focusing on product attributes that support the introduction of such products at the "luxury" end of the spectrum can help open the door for the introduction of the full depth of offerings available in a given product category.

Taking bourbon as an example, Taiwan is already an importer of major label U.S. products. However, lack of understanding and promotion of bourbon as a sophisticated product with a depth of offering similar to Scotch whiskey, gives bourbon a relatively low profile and keeps competition along price lines.

Given supply and interest, U.S. industry associations would be in a strong position to assist bourbon, rum or other spirits of interest to raise product profiles, develop a market appreciation for product sophistication and encourage product differentiation to support premium sales at the top of the market. The success of initial sales at the top end would have a fair chance of sparking a multiplier effect, as importers take interest in an area of new market sales potential and high-end consumers begin to take an interest in a "new" area of culture and knowledge. As often noted, Taiwan consumers are often looked upon by consumers in China and Southeast Asia as "opinion leaders" in terms of fashion and food trends. A successful breakthrough in selling high-end U.S. spirits to Taiwan consumers can then be leveraged as a platform to launch similar efforts in China and other key markets in the region.


Taiwan Whiskey Imports by Origin (volume)
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
1,000 kgs
1999
2000
2001
2002
2003
2004
2005
2006
Other
Thailand
Ireland
Canada
U.S.
France
Japan
U.K.