

**Analysis**

**Richard Brown**  
assesses the  
opportunities and  
challenges posed  
by China and the  
Far East

The next  
**step**



**W**ith their burgeoning populations and seemingly limitless growth prospects, China and the Far East are on everyone's mind right now. But should international vodka brands be focusing on penetrating the vast, and often difficult, Chinese market?

Currently international spirits brands are still tiny players in the overall Chinese market, due to the domestic players having high levels of brand awareness and seemingly impenetrable distribution networks.

In 2010 we started to see some multinational players in the spirits arena benefiting from the premiumisation trend, but this is yet to gain real traction in the vodka category.

The international vodka brands will need to decide whether they are going to target the premium end of the market for the longer term or chase

standard volumes in the shorter term.

For imported spirits as a whole, at present China is emerging as a brown spirits market: whisky and cognac volumes are both rising rapidly – it's a two-horse race.

Vodka may be leading the white spirits category and has achieved solid growth in the past decade as a whole, but in China that isn't saying much – it is one of the world's fastest growing spirits markets and if the data is to be believed vodka has suffered a decline in the past three years.

**Flavour innovation**

Most vodka consumed in China is in the original taste without flavour addition. According to trade sources, 80% of vodka is consumed in the on-trade, mostly as a base for cocktails.

Absolut and Smirnoff account for just over 50% of the sector, with Skyy in third place.

However, in common with their western counterparts younger affluent Chinese drinkers like to experience new things and may be experimenting more with citrus and lemon flavours for their fresh taste.

Given the emerging trend towards individualism, novelty and self-expression we expect flavoured vodka to grow over the coming years.

The novelty value of flavoured vodkas would also suggest they are well suited to the markets of the Far East beyond China.

**Pricing**

The premiumisation trend in China is attracting the attention of both spirits manufacturers and distributors and, in 2010, premium products have been launched continuously in other sectors, but few currently in the vodka category.

Can we expect vodka brands to make an attack on the premium and

super-premium category any time soon? The standard segment accounts for some 80% of volume – but interest in premium/super-premium vodkas is starting to emerge in some of the more exclusive bars in trend-leading cities.

The recent growth in premium and super-premium vodka has been led by Smirnoff Black and Grey Goose but we expect this to change as other premium brands, such as Ketel One, Belvedere and Ciroc, start to gain footholds.

Currently Grey Goose is operating at twice the price of competitors. Standard cognac operates at the highest price points and international whisky brands are choosing China as the market to launch their super-premium brands and limited edition products.

Is this the next obvious step for vodka?

*Richard Brown is managing partner at Cognosis Consulting*