LVHM sees potential of China's traditional liquor market

When Moet Hennessy, the wines and spirits business of leading luxury products group LVMH, acquired a 55 per cent stake in Wenjun Distillery, one of China's premium bai jiu (white spirits) companies, the company raised a few eyebrows because it was doing something it had never, in its illustrious history, done before.

"This is the first experience for the whole LVMH group owning an Asian brand," says **Allan Hong**, development manager at Sichuan Wenjun Spirits Sales Company. "Because of the great potential in China, the whole group decided to run the Wenjun brand as a super-premium brand in China," he adds.

Though regarded as an unprecedented move by LVMH, this was something that its competitors had already homed in on.

Even before LVMH sealed the deal with Wenjun in 2007, drinks giant Diageo had already snapped up a 43 per cent share in Chinese spirits producer Sichuan Chengdu Quanxing Group Co, another leading maker of premium *bai jiu*. Hong says it's because "the foreign companies already noticed the huge potential of the Chinese spirit market."

But venturing into new territory can be tricky, and LVMH has had to learn some hard lessons along the way.

For example, as LVMH had always targeted modern nightspots, and no one was drinking *bai jiu* in those outlets, they had to shift its focus to Chinese restaurants.

This, Hong says, posed an immediate challenge, because LVMH's sales force had relatively less experience with Chinese restaurants.

"So (in our) communication with our distributors, with restaurant owners, we have made a lot of efforts to understand their needs and (also) what their consumers want in those kind of outlets."

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Another speed bump the company faced was linked to guanxi (relationships), or lack thereof, which had a direct impact on its distribution network.

"I would say distribution is kind of a problem because the Chinese white spirits or *bai jiu* distribution network is different from the foreign spirits distribution network.

In China we have so-called *bai jiu* special retailers; they have their special relationship with government officials, with Chinese restaurants, and we have to go through them to get these kinds of relationships."

Also, as *bai jiu* brands cannot be fully owned by a foreign company, because Chinese law states that they must partner with a local company in the form of a joint venture, LVMH faces yet another limitation, thereby driving home the point that the *bai jiu* business is a sobering one.

"If you want to build a *bai jiu* production site from ground zero, it would take seven years; two years to build the distillery, another three years to nourish the pits (the pit is where we put all the grains in for fermentation) and another two to three years to age the spirit before you can sell it."

Nevertheless, LVMH aims to meet the growing demand for premium *bai jiu* from the newly-affluent urban Chinese. "We want to capture this opportunity; we want to get a niche market that only belongs to ourselves."

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