

MACAU: STRUGGLE AND GROWTH

Against the backdrop of luxury hotels and casinos, importers are working hard to capture the potential of this rapidly growing market but, as Jeannie Cho Lee observes, the duty reduction in Hong Kong threatens the fine wine business.

Macau is a tiny peninsula, with a mere 29 square kilometers of land and a population of just over 500,000. The special administrative region has long suffered as Hong Kong's poor cousin, lagging far behind economically until the recent growth of hotels and casinos. That said, in 2006, Macau's casino revenues surpassed those of Las Vegas and, with the opening of upcoming hotels, this growth looks set to continue at least over the next five years.

The market is growing

James Rowell, ASC's former director of education says: "2006 was a big year for Macau in many ways. Several large hotels and casinos opened, such as Galaxy, Grand Lisboa and Wynn's. These helped to increase fine dining venues in Macau and boost wine business. In 2007, both the MGM and Venetian opened. 2008 will have just as much activity with opening of the Four Seasons, Arc de Triomphe and Cirque du Soleil, which should attract tourists from outside of China." In 2009, Sheraton, St Regis and InterContinental hotels are due to open.

Macau was returned from Portuguese control to China in 1999 and, since then, the city has become quite popular with mainland tourists, with gambling as its main attraction. In 1999, there were only 7.4m tourists, of which 1.6m were Chinese, representing a mere 22%. In 2007 there were 26.9m, of which 55% or 14.8m came from mainland China.

Relying on the tourism revenue from mainland Chinese has its drawbacks: The average stay for a mainland Chinese is 1.5 days, with the vast majority of that time spent on the gambling floors rather than in hotel rooms

or restaurants. Exceptional restaurants such as Robuchon and Don Alfonso are hardly ever full, especially on the weekdays, despite their exceptional wine list. Even on the gambling floors, the most popular drink at the Sands is milk or water rather than any alcoholic beverage, says Patricio de la Fuente Saez, general manager of Links Concepts in Hong Kong, who supplies Sands with their house wine.

Gambling-led growth

The wine industry has begun to expand in tandem with the growth in casinos. In 2000, Macau imported only

litre containers) was only \$3.2m (€2m). By 2005, this rose to \$17m and is at \$55m for year end 2007.

Although the size of the market and actual numbers are small, the growth increases over the past several years are impressive. In 2006, two of China's largest bottled wine importers, ASC and Summergate, opened offices in Macau. Tim Feather, area sales director of Summergate says: "There is a lot of growth in different areas of the industry. There is a strong banquet business and the fine wine business in the top hotels is growing quickly too."

ASC's branch here is barely two years old, but there are already seven people working in the Macau office. "Out of the 70 brands that we represent in China, we have 60 in Macau," says Rowell, who helped open the Macau office. His successor, Jing Lin, says the traffic between Macau and southern China is significant and growing. "We are currently depending on Chinese [mainland] visitors, but there will eventually be greater Asian visitors, for example from Japan and Korea, who will boost both the F&B and wine industry."

The missing middle

Tim Feather was the F&B director at Sands and MGM prior to joining Summergate. "In the early 1990s, Macau was vastly dominated by low-end Portuguese wine," he says. "This is now changing, but the majority of imports are still cheap Portuguese wines." The market appears to be split into the very high and quite low end.

Patricio de la Fuente Saez attributes 15% of total sales to Macau. "There are two extremes to the Macau business, with nothing in between: Very expensive, top wine, or cheap, house pouring

1 Benchmark Data	
Population:	520,000
GDP (PPP):	US\$17,600m
Currency:	Pataca (100 MOP = US\$12.44)
Total bottled wine imports:	217,000 cases



62,000 cases of wine. There was slow, but unimpressive growth over the next five years until volume soared by 32% from 126,000 in 2005 to 166,000 cases in 2006. Again, in 2007, volumes jumped 33% to 217,000 cases. The value of wine imports is even more impressive. In 2000, the total value of bottled wine imports (in less than two

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Jing Lin, ASC's new director of education

wine," he says. "The real money is in the fine wine end, where high rollers use points gained from gaming revenue in exchange for hotel rooms, wine and F&B spend. I had one hotel who urgently ordered five cases of rare wine including 1945 Mouton and 1982 Petrus. They told me their customer drank it all in one night. That's Macau."

At the other end of the spectrum, growth is stable but increasingly competitive. Catherine Choi, Vice General Manager of Nolasco, one of the largest and oldest Portuguese wine importers, says that "Portuguese wines continue to do well, but the future growth is in China, not here. We have been selling Portuguese wine since 1958 and our business is stable." Nolasco has an office in Beijing and Shanghai since 1998 and expects China to be the growth engine of the business.

The two largest Macau based companies, Great Time and Seapower, both rely heavily on Hong Kong importers to supply them with wines on a need-basis. Great Time works with several Hong Kong importers including Kedington, Northeast and Moet Hennessy Diageo, representing many of their brands in Macau. Seapower has a similar relationship with several companies, including Pernod Richard Hong Kong, with their main business being spirits. The recent duty elimination in Hong Kong has many importers worried about their fine wine business. Sandy Leong of Great Time says, "If duty doesn't go down to zero in Macau, we will not be competitive [for fine wine]. Fine wines will be purchased in Hong Kong. Spirits is a better business." Macau's spirit's duty is only 15% ad valorem while Hong Kong is at 100%.

Terence Leung, Marketing Director of Seapower echoes Leong's sentiments: "There will definitely be a loss of fine wine business because we are no longer competitive. We may lose the agency business too since companies based either in Hong Kong or China insist on signing agreements including the Macau business."

There are signs of both growth and struggle within Macau's small wine industry. Against the backdrop of impressive shiny, marbled hotels and casinos are major Hong Kong and China based importers struggling to capture the potential. However, the volumes are so small that market research firms don't even include Macau in the Greater China calculation. Last year, Macau imported a record 217,000 cases of bottled wine worth \$55m, but that is small fry compared to its much larger neighbours. Hong Kong imported 2.5m and China 4.7m cases in 2007. ■



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