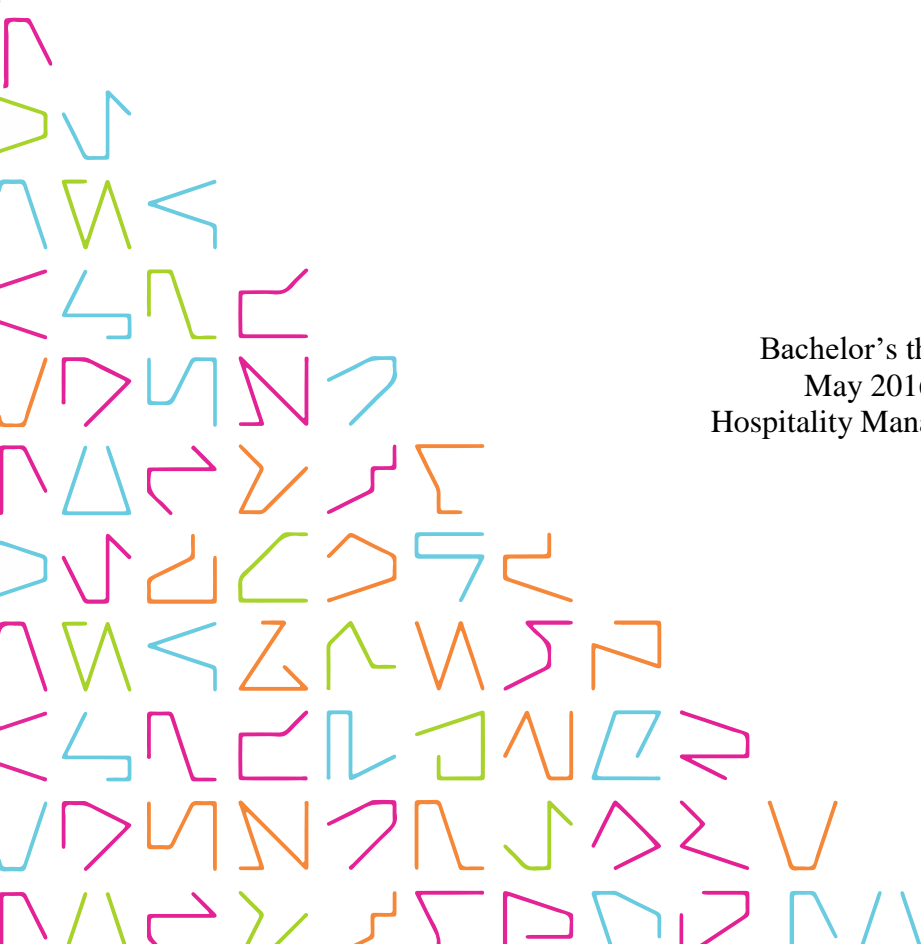


COCKTAIL CULTURE IN SHANGHAI

Prospects of Beverage Manufacturers

Mikael Wallin

**Bachelor's thesis
May 2016
Hospitality Management**



ABSTRACT

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Prospects for Beverage Manufacturers

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The purpose of this thesis was to study the culture and trends in the cocktail and whiskey bar industry of Shanghai. The thesis seeks to form an understanding about the attitudes of customers and bar professionals towards distilled spirits and find out what spirits are the most popular in the cocktail bars of Shanghai. The ultimate purpose is to evaluate Shanghai as a potential market for spirit manufacturers. This research was done in collaboration with the Finnish craft distillery Kyrö Distillery Company.

The thesis was made by qualitatively interviewing bar managers and quantitatively studying cocktail bar reviews in online magazines and blogs of Shanghai. Eight interviews were conducted on location in Shanghai. The theory consisted of studying customer behaviour in general and defining the current state of the Chinese spirits industry.

The results indicated that Shanghai has a diversifying and growing cocktail bar industry catering to both locals and foreigners. The cocktail bar represents a premium and alternative lifestyle distinct from traditional Chinese past-times. Drinks in these establishments are based completely on Western and some Japanese spirits mainly whiskies, gins, and rums served in cocktails or by themselves. Baijiu which is traditionally favoured by the local customers is almost non-existent in the cocktail bars of Shanghai.

Despite a rapid growth in popularity, the drinks and the concept of the Western styled cocktail bar and spirits are not very well understood by most of the local customers. Therefore, the right kind of education and promotion will define how new products are received in Shanghai. The newly rich local customers are interested in foreign spirits and cocktail bars because of their premium status, diverse tastes, the experience of foreign culture and the association with a trendy lifestyle. Larger trends such as the rise of social media, the spending power of women, and health consciousness also play a role. Considering these factors with choosing and marketing products for the Shanghainese market will define how distilled spirits are received in Shanghai.

Key words: China, Shanghai, bar, distilled spirits, cocktail, consumer behaviour, interview

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ABBREVIATIONS AND TERMS

CEO	Chief Executive Officer
IBA	International Bartenders Association
IWSC	International Wine & Spirit Competition
KDC	Kyrö Distillery Company
KTV	Karaoke box, an East Asian karaoke establishment
Shifu	Chinese term for skilled person or master
TMC	Traditional Chinese medicine

1 INTRODUCTION

1.1 Background

The global spirit industry is growing. Consumption has increased in developing countries such as Brazil, Russia, India and China, where customers are ready to pay more for premium spirit brands with their newly found disposable income. In the West where the market has not been growing, it is on the other hand diversifying and evolving with new trends. (Ipsos 2015; Kell 2015). The beginning of the 20th century has experienced a re-emergence of craft spirits distilling in the West. Following the trend and the model of the craft brewing market, the amount of new small scale producers of spirits have increased very rapidly in numbers. The US has seen more than a tenfold increase in craft distilleries in the past ten years to 769 in 2015, which has led the market to a more premium and diverse direction. (Curtis 2014; Morris 2015.) This is interesting for the West is the major trend setters globally. More than one third of the most revered cocktail bars in the world are located in New York and London alone. Asia is improving its standing however. Top quality cocktail bars in Tokyo, Singapore and Hong Kong are leading the way for an emerging Asian cocktail culture. (Ipsos 2015; Smith 2016a.)

The new wave of premium products from the West is defined by the notion of craft. The term craft is very hard to define strictly. Craft is a term that defines itself as being opposed to industrial mass production. It reflects people's need to re-establish a connection between themselves, the producers and the materials and tools of production. Thus some common characteristics with craft products tend to be a story behind the products, a distinctly different product either through tradition or innovation and an emphasis on quality and sustainability. The American Distilling Institute issues a certificate of craft spirit, which defines a craft distillery as an independently-owned producer of less than 100 000 proof gallons. However, the term can't really be said to be in use exclusively by one certificate. Alexandre Ricard, the CEO of Pernod Ricard has argued that the knowledge behind centuries old brands such as Martell cognac should be considered craft regardless of their big production size. (Daneshkhu 2015; Social Science Bites 2015; Morris 2015; Owens 2016.)

New kinds of digital marketing are helping brands reach consumers though government regulation heavily affects a brand visibility in different countries in varying degrees. In the past, spirits advertising has largely focused on promoting the quality and heritage of the products. However, social media and digital marketing has brought about a new kind of approach where brands are now seeking to identify with the same values and interests as the consumers. Through for example using more comedy or innovative social media events and campaigns, brands are relating and connecting with customers in a new way (Ipsos 2015.)

1.2 Research

This thesis is done in collaboration with the Finnish whiskey and gin distillery Kyrö Distillery Company. Kyrö is a Finnish distillery producing rye whiskey and rye gin. The company started production in 2014 and aims to be a globally recognized producer by 2020. The company has received wide notice in its native Finland after its Napue gin was selected as the world's best gin for gin & tonic by the IWSC in 2015. The company's brand and products are designed to reflect the distillery's local roots and heritage in Finnish Ostrobothnia and to emphasise values such as authenticity, quality, honest obsession to craft, purity, humour, nature, protestant work ethic, and egalitarianism. The distillery is exporting to several European countries and also in Asia to Japan, South Korea and Singapore. One of the goals of this paper is to more specifically find out whether or not the products of KDC would be among the products the Shanghainese customers would be interested. (Koskinen 2016; Kyrö Distillery Company 2016; Nikula 2015.)

This thesis was born after a long personal interest in spirits and mixology as well as an internship in Kyrö Distillery Company and an exchange period in Shanghai University in 2015. Exploring the whiskey bars and cocktail lounges of Shanghai was an interesting experience and gave me a context to conduct a small qualitative research to explore the current situation of the Shanghainese alcohol market and culture. I decided to narrow the topic to include only spirit drinks and Shanghai as the financial centre and cocktail capital of mainland China. The high-end whiskey and cocktail bars serve as a

good area of focus as the trends seen in high-end bars are influential throughout the bar industry in general.

2 CONSUMER BEHAVIOUR IN CHINA

2.1 Cultural influence

Alcohol has had a long and profound standing in Chinese culture ever since the antiquity. Alcohol was used in spiritual rites and its role in traditional Chinese medicine was seen as having a property of guiding other medicines to the place of disease. Alcohol was traditionally viewed as a luxury, not an everyday necessity. One of the Confucian Classics, the Book of Rites, sets basic principles about when, and how to drink alcohol. Confucius also advised against excessive drinking and it was regarded as one of the Four Vices of Disasters. Being drunk publicly or alone is still seen as somewhat disgraceful. Alcohol is associated very strongly with food in China. Alcohol and food are traditionally always served together.. (Gately 2008; Hao 2003.)

Culture is a set of attitudes, values and practices shared by a group of people which can range from a nation, to a minority subculture or a social class. It is a network of practices that shapes every aspect of social life and it manifests itself in both verbal and non-verbal communication. (Campbell 2004, 18–20.) It is a kind of software of the mind and it significantly determines general attitudes and preferences people have, as much as or even more so than age, gender, or race (Gannon 2001, 5–6).

Cultural influences are therefore also an indispensable part of the presentation and design of products especially in the spirits industry where the recipes, stories and appearance of products are very commonly tied to local traditions and history. The importance of national cultures is seen in the differences in advertising in different countries. For example in collectivist cultures, having multiple people in advertisements instead of just one is much more common and also the level of directness a salesperson can use is highly culture-specific. (Hofstede 2005, 349–350.)

When an individual sees oneself as aspiring to join or as a member of a group, there is a pressure to conform to collective norms in product choices, behavior and attitudes. Similarly, when one looks to disassociate oneself from a group, one rejects those norms. The cohesiveness of the group defines how large the pressure for conformity is. (Sandhusen 2000, 221–222.)

Maslow's hierarchy of needs explains motives preceding one another in their urgency to be fulfilled. It starts from physiological needs such as air, water and food, to once safety, social belonging and esteem has been achieved, one finally seeks self-actualization. (Sandhusen 2000, 225–227.) Consumer trends rise in a cultures only after wealth and productivity rise in the society or social class so high that one can start making choices based on fashion, not based on survival and utility. The existence of fashion and trends is a sign that society has shifted from being mainly influenced by slowly changing traditions into a fast changing culture that values newness. (Ray 2016, 190.)

Consumers with growing disposable income in developing countries are prepared to pay more than they could previously afford for better quality, as means to express success and achieve self-actualization. The desire to invest in premium is justified by both emotional reasons for luxury and rational reasons for better quality. As a relatively small purchase, premium spirits are considered an affordable luxury by people with more limited amounts of disposable income seeking luxury. There also exist a newly rich customer group in China who may want to buy luxury spirits mainly to prove their wealth and do not care as much about the actual taste and quality of the product. (Ipsos 2015; Zhangyu 2015.) The negative consequences of air pollution and problems in food safety are very visible in the everyday life of China. People are pursuing health proactively with also new products such as health oriented food products, health apps and programs. (Mintel 2015.)

Lifestyle is a major predictor of buying behaviour. Variables such as age, life stage, occupation and economic situation frequently correlate with certain kinds of behaviours. Psychological factors are hard to measure and they are constantly changing depending on people's life circumstances and each person's own perceptions. Past experiences and memories can form attitudes and beliefs about products that are hard to change. However, exposure and advertising can change people's attitudes. An example of this is tequila. In the US, Tequila has shaken off its old cheap reputation as celebrity endorsement has made some of the luxury tequilas the fastest growing brands in the market. (Sandhusen 2000, 225–227; Walker 2015.)

The family structure in urban China is undergoing shift from traditional extended families to nuclear families and eve new kinds of family structures. Since the enactment

of the one-child policy, the household size in China has decreased and despite the recent decision to end the policy, economic growth and the increased participation of women in the workforce has resulted in lower fertility rates in cities. This along with urbanization has also brought up a challenge to the deeply rooted Confucian tradition of filial piety, where the elderly are taken care of by their adult children. The increased participation of women in the workforce has also made women a rapidly rising customer group with different preferences than men. Career choices postpone family life, which also has created a new customer group of Chinese families with double income and no children. (Mintel 2015; Zhu & Xie 2011.)

2.2 Alcohol Consumption

The middle class in China typically have much smaller apartments compared to Westerners. Therefore the culture of inviting friends over is much less prevalent in China and home is seen as a more private space. A lot of the current off-trade sales are explained by the habit of buying a spirit from a shop and bringing it to a restaurant, which is the conventional location to drink spirits. (Drinks International 2015.) Alcohol is an essential part of doing business in China. Especially strong alcoholic drinks are drunk in business meetings to promote camaraderie between colleagues and business partners. It is seen as a necessary part of building trust and getting to know other people and it is commonly given as a gift to cement business deals. (Hao 2003.)

The economic reforms and the subsequent economic growth after the end of the Cultural Revolution has seen a huge increase in alcohol consumption in China almost doubling from an average 2,5 litres of 100% ethanol per person in 1978 to 4,9 litres in 2009. The consumption is still relatively very low compared to for example the European Union where the average is 10,7 litres per person. Whereas before, the middle class could only afford local alcoholic beverages like beer and baijiu, the Chinese middle class can now afford imported premium Western drinks, like wines, cognac, whiskey and other spirits. (Hao 2012; Pingali 2011.)

Even though the per capita consumption is quite low, China is still the largest national alcoholic beverage market in the world. As economic growth is known to correlate strongly with increased alcohol consumption, the growth in alcohol consumption is also

faster than anywhere else in the world. The government regulations in China for alcohol consumption have been very small. It is only as recently as 2006 that the government introduced a law to ban the sale of alcohol to customers under the age of 18. (Room 2002; Hao 2012.)

The austerity measures of president Xi Jinping have hit the luxury sector of the market hard in recent years however. The hit has been mostly towards the luxury sector and simultaneously the more affordable spirits have been going up. The campaign to diminish public spending and corruption has impacted the luxury market sector which previously had been rising very fast. Some estimate as much as half of high-end alcohol sales in China were due to gift giving between Chinese officials. The practice came under the radar with the campaign, and especially luxury baijiu sales have slowed down since 2012. Between 2013 and 2014 Scotch sales dropped 35% and French brandy 20%. (Schmitt 2015.)

China is still almost completely dominated by local producers. In 2009 Chinese spirit baijiu controlled just over 84% of spirit sales while whiskey and brandy accounted for 6 and 9 percent. (International Market Bureau 2009.) In terms of volume however, 99% of spirits consumed in China is baijiu. After baijiu the most popular spirits are brandies, whiskeys and vodkas. Especially with aged spirits, there is a growing interest for premium products. These spirits are mostly imported and big well-known brands control the market. Cognac and Brandy are particularly popular and seen as a status symbol with their long reputation and association with wealth. (Chow 2012; Mowery 2015.)

Despite rapid growth, the Chinese market is still relatively immature. The market is much more driven by brand status and advertising than emphasis on taste and quality. This can be seen in the large emphasis on the country of origin, narrow product range preference and the exclusive popularity of big well-known brands. For example in wines, white wine still has only a very limited appreciation as red wine is associated with sophistication, heritage and health. (Auger 2012.)

3 THE SPIRITS INDUSTRY IN CHINA

3.1 Spirits in China

Distillation is believed to have been brought to China from the Middle East either during the Song Dynasty (960–1270) or Yuan Dynasty (1271–1368). It is after this that baijiu was born, which is the category most Chinese distilled spirits fall under today. Baijiu literally translates as white alcohol and refers to a wide range of very different Chinese spirits. It is considered a national drink and is by far the most consumed liquor in China. This makes it also the most consumed spirit of the world, despite it being largely unknown outside of China. In 2012, an estimated 10 to 17 billion litres of baijiu were produced, which is more than double the volume of the nearest competitor vodka. (Sandhaus 2015; Pingali 2011.)

Baijiu is a strong 50–60% ABV spirit made with sorghum, rice, glutinous rice, wheat and corn in varying degrees. The grains are made into a base called qu, moist bricks or clumps of a grain paste which has drawn yeasts, bacteria and other microorganisms from the air. Sometimes herbs, botanicals and berries are also added to a qu especially to those made with rice. Bacteria breaks down the starches in the grains into sugars and yeasts convert these sugars into ethanol. The process of making qu is equivalent to both mashing and fermenting used in western spirits. This is a clear distinction of Chinese spirits as grain is fermented in a solid or semi-solid state. (Sandhaus 2015.)

Distillation is what makes an alcoholic beverage classified as a liquor or spirit. Gradually heating the used mixture will result in vapours with a much higher alcohol content than the base mixture which are cooled and condensed back into liquid. Baijiu is distilled with a traditional Chinese pot still, where alcohol is extracted by both steaming the grains and by boiling. The spirit is then aged in clay jars in a cool and dark place to break down the strong taste of aldehyde which rounds up the taste and improves the concentration of esters giving the alcohol a sweeter and more complex taste. The clay's surface improves oxidization and the mineral composition of the clay from different regions also affects the ageing which lasts usually from six months to five years. Every batch is aged separately even if it was still from the same grains and only after that blended to the final product. (Sandhaus 2015.)

Baijiu is thought of as a specifically manly drink and some brands even claim their liquor as an aid to erectile dysfunction. In 2015 the government's food safety bureau found that 51 distillers had added Sildenafil, the hypertension drug also known as Viagra into their spirit. (Hornby 2015.) Due to baijiu's masculine reputation, the consumption of high-strength alcohol by women is still not completely acceptable and it has been especially women who have fueled the rising popularity of wines in China. (Pingali 2011; The Economist 2013.)

Unlike beer and grape wine production in China, small and medium-sized distilleries are more prominent in the baijiu industry. This is largely a result of Chairman Deng Xiaoping's economic reforms beginning in the late 1970s after the death of Chairman Mao, which lifted the rationing of baijiu and reintroduced private enterprise. The consequent rapid economic growth in China was accompanied by a large number of new distilleries and a greater variety in baijiu categories. It was during this time that the market saw the advent of extraordinarily expensive super-premium baijiu's. One of the main big drivers for this category of baijiu is the habit of giving alcohol as a gift and the super-premium baijiu's are used as vehicles for bribery in this way. (Sandhaus 2015.)

One of the key parts of traditional Chinese medicine is the use of botanicals, minerals and animal products as medicines in the form of among other things teas, liquid extracts, and alcohol infusions (NIH). It's still used today as an essential part of healthcare in Asia and to some extent outside Asia as either a complementary or alternative to Western Medicine (Chan 2010).

Heavy duties have always affected the importation of spirits with taxes as high as 150% as recently as 1995. However major tax cuts have been made, especially after China joined the World Trade Organization in 2001 and alcohol imports are rising on a fast pace, as much as 58% between 2011 and 2012. (Auger 2012; Hao 2003.)

The black market for alcohol in China is huge. A lot of importing goes through the black market for example through Hong Kong and do not have taxes paid on them. The question of counterfeit alcohol is the major part of the Chinese black market for alcohol. Estimates have placed the prevalence of counterfeit alcohol as high as controlling 30% of all alcohol in China, although this is hard to estimate for certain. Counterfeit alcohol can be either illegal homemade alcohol or legally made industrial alcohol placed in the used or copied bottle of a well-known brand. Western wine and spirit brands sold in large volume are usually the target of counterfeiting. Western companies are known

even to hire people to spot-check their products in bars for authenticity. Some products can cause serious health effects, but there are also some very advanced counterfeit products. In the Chinese market where the knowledge of Western products is still relatively small, a counterfeit product can easily pass as genuine even in higher-end bars. (Fullerton 2015; Mowery 2015.)

China also lacks a strong national standard for labelling. For example the age statement of baijiu, especially with older bottlings, may only contain a small part of the aged product in the blend. The law does not require distilleries to inform about the use of 3rd party distillates in their products. (Sandhaus 2015.)

China is the single largest beer producer in the world, and the lager styled Snow beer by the giant brewery China Resource Snow Breweries Ltd. is the most sold beer in the world. Chinese wines are primarily sold at the lower price range whereas imported wines from the west and premium domestic wines represent the higher end. Both the wine and the beer markets are dominated by a few huge producers and a great majority of their produce remains in China. (Auger 2012; Pingali 2011.)

3.2 Bar Industry in Shanghai

Bars and pubs have not been a traditional part of Chinese culture and their prevalence in China is an example of Western influences in Chinese culture. Alcohol is still mainly drunk with meals in restaurants. (Pietarinen 2010, 114.) Nightlife had been banned under Mao Zedong from the 1950s to the end of 1970s and only a few hotel bars have survived to the present day from before the communist take-over. Since the economic reforms and growth at the turn of the 1980s, small private bars have emerged first near international hotels to cater foreign businessmen and expats. Since then, bars have become increasingly popular also among locals and a part of Chinese urban culture throughout the country. In 2015, Pierre Coppéré, CEO of Pernod Ricard Asia stated that bars and off-trade were now representing 70% of the company's trade in China whereas KTV lounges accounted for only 15%, down from 20% just a year ago. (Drinks International 2015.)

Cocktail bars were originally founded by foreigners from the West and elsewhere in East Asia. Today however, a new wave of Chinese bartenders are picking up the trade, using local ingredients, and giving the cocktails of Shanghai their own distinctive twist. Many bartenders are coming from Tokyo and Japan, where the cocktail renaissance has flourished as precision and elegance has been incorporated to cocktails much like in traditional Japanese tea ceremony. Herbs, botanicals, berries, fruits and animal parts have been traditionally used for alcohol infusions for their medicinal properties and their flavour. Today, ingredients used in TMC for hundreds or thousands of years are now used in cocktails in the hands of new Chinese bartenders, as ingredients such as ginseng, osmanthus and Sichuan pepper are used in liquor infusions and syrups. (Reilley 2015.)

Since the opening of Shanghai's first whiskey bar Constellation in 2000, Shanghai has been at the forefront of mainland China's cocktail culture (Smith 2016b). Shanghai is no longer an emerging scene but a well-established and vibrant cocktail city with cocktail bars ranging from hotel cocktail lounges to tiny cocktail tailor bars (Reilley 2015). Some say that the city has even been overly saturated by prohibition era speakeasies with secret entrances to the point of fatigue (Barlow 2016). The city has one supplier of high quality clear ice made with purified water (Xiaode Ice 2016). In a recent list of top 50 bars in Asia, created by top industry professionals in Asia, Shanghai came out as having three out of four of mainland China's top bars on the list with Shanghainese bars Union Trading Company reaching 9th place and the speakeasy Speak low ranking the second best bar in Asia. (Worlds 50 Best Bars 2016.)

4 METHOD

4.1 Data Collection

Qualitative research looks at the data as trying to find meanings and attitudes behind the answers. The goal is to find the underlying themes and patterns in the topic and then form explanations and theories based on them. This is done by simplifying and organizing the data according to the themes. Quantitative research on the other hand examines the themes in more measurable factors such as numbers and values. The themes can emerge inductively or deductively. In deductive analysis the themes and theories are formed beforehand and in inductive analysis they emerge during the course of data analysis.

Usually a research will include elements of qualitative and quantitative as well as inductive and deductive analysis. Qualitative research is good at exploring an unknown and complex subject but produces less generalizable results. This research is mainly qualitative due to it being a practical method to explore a hard to measure a subject like culture and attitudes. The interviews of the study have been analysed qualitatively and organized under three different themes and from there a number of different subthemes. Some of these themes have come about deductively during the course of planning the semi-structured interviews, but some patterns in the interviews also emerged inductively during the course of analysis. The second part of the study, the analysis of bar reviews, represents quantitative research.

The first part of this study consists of eight interviews of Shanghainese cocktail bar managers in December of 2015. The interviews were conducted in person and audio recorded on a smartphone. The bars visited were all bars focusing on serving cocktails and premium spirits and were all in comparison different from each other in terms of owner nationality, price range, theme or location. The interviews were semi-structured with a planned set of questions to cover all interviews but also with a possibility to ask probing questions if more information was seen necessary. The interviews ended up covering the same topics but as the questions were very broad in nature, the different focuses of each interview meant that answers were not always quantitatively

comparable with each other. Interviewees tended to focus on very different things in their answers.

The interviews have been transcribed. As the focus of the study is not speech technical details, the transcriptions do not include the recording of non-verbal communication such as pauses or coughing. Also repetitions, conversation filler words and answers in Chinese were not transcribed. The less than completely accurate transcriptions are justified as the entire research is conducted by one person and therefore someone who is aware of the research goals and when there is a need to be precise and when not to. Two other interviews were also conducted with a customer and a brand manager. These interviews are used only as regular references. (Hirsijärvi 1995, 111–112.)

The second part of the study is an analysis of cocktails mentioned in English-language bar reviews from Shanghai. The reviews are randomly chosen cocktail bar reviews from online magazines and blogs. Seven bar reviews were analysed consisting of 41 cocktails mentioned from 19 different cocktail bars.

4.2 Analysis

The transcripts and bar reviews were analysed by searching for common patterns. Three main themes were found, drink choices, customer behaviour, and bar management. These large themes were divided into smaller subthemes. The first theme of drink choices seeks to understand the characteristics of the popular drinks in Shanghai. It is divided into subthemes based on the characteristics of the drinks which are appearance, price, taste, country of origin, spirit and ingredient choices. The second theme of customer behaviour seeks to understand who the customers are and what kind of different preferences exist. The section is divided based on how different customer characteristics might affect customer behaviour. These are nationality, age, gender and experience. The third theme of bar management explores the role and tasks of the bar now and in the future. The section is divided into generating appeal, promotion, education and prospects for the future.

The interviews have been analysed to find if each person expressed views on the subtheme and then noting each person's standing in a statement. This process has been done by making notes digitally on an analysis sheet and on printed transcripts. The

analysis sheet (Appendices 4-6) consists of statements each corresponding to a subtheme. The value 0 stands for disagreement. 1 stands for partial disagreement. 2 stands for partial agreement. 3 stands for agreement and when the topic wasn't discussed the answer has been marked with the value 9. This has been done to create an overview of the subthemes and to simplify each interviewer's attitudes to an easily comparable format. The overview was used to make general statements about the sample size as a whole and also as a basis to go back to the original transcripts to seek individual answers of interest.

The bar review were analysed by combining information from the reviews into a spread sheet. The spread sheet includes the name of the cocktail, the bar, the price as well as the spirits and other ingredients used in the cocktail. Each cocktail mentioned in the reviews was listed from which enough information was given so that the ingredients used are known. The mentioning of a classic cocktail standardized by the IBA, will be assumed to include the IBA specified ingredients, unless otherwise stated. If a cocktail is not standardized by the IBA and no list of ingredients is provided by the review, the cocktail is not included in the analysis. Water and sugar was not taken into account as ingredients and some generalizations were made to simplify the information such as grouping all liqueurs flavoured with berries and fruits as fruit liqueurs. The initial spread sheet is not included as an appendix due to its large size. Instead two overviews of the information have been included. (Appendix 1; Appendix 2.)

The interviews and bar reviews are both analysed under the same main themes in the next chapter. The results concerning the first theme of drink choices are based on appendices 4, 2 and 1. The results of the second theme of customer behaviour have to do with appendices 5 and 2. Results explored under the third theme of bar management are based on appendix 6.

5 RESEARCH

5.1 Drink Choices

Cocktails were seen as a necessary part of the drink list in every bar interviewed. Even whiskey bars, where most of the customers came for whiskey, emphasised the importance of cocktails. Classic cocktails were pointed out to be the most popular drinks by the bar managers. In the cocktails mentioned in reviews the most commonly used non-spirit ingredients were lime, lemon, mint, vermouths, orange and bitter drinks, hinting also to very classic Western compositions. Each bar did also do some variation on the classics. It was mainly these twists of classic cocktails as well as some original creations that were mentioned the most in bar reviews. Even some more unconventional ingredients such as bacon, celery, chili, ginseng, saffron, Sichuan pepper, yuzu and lychee were once mentioned.

The majority of bar managers pointed out that the appearance of the drinks and also the bar is really important to customers. One Chinese bar manager even said that local customers don't even care that much about the taste and the most important aspect of the cocktail is its appearance and the atmosphere of the bar. Aesthetics were seen as especially important because of social media. It was also pointed out many times that a lot of customers put large value on the fact that the drink is made especially for them by a skilled bartender and the shaking and garnishing of the cocktail impresses the customers.

Almost all of the mentioned alcohol beverages used were Western with the exception of Japanese whiskies and some individual products like osmanthus wine. Scotch whiskies were by far the most popular whiskey brands in whiskey oriented bars. Cocktail bars used a lot of European liqueurs and flavoured wines everything from Advocaat to Storico and Chartreuse to Barolo Chinato. There was a sizable amount of craft gins mentioned as spirit choices. Hendrick's was the single most often mentioned spirit brand in bar reviews and some other similar brands such as Ransom and Monkey 47 were also mentioned. American whiskey was much more popular than Scotch in cocktails.

According to the bar review analysis, gin was the most popular spirit category used in cocktails mentioned in Shanghainese bar reviews. Just under one third of spirits used in cocktails was gin. This is twice more than the next most popular spirit rum, which was used in 15% of cocktails. Whiskey, vodka and different fruit liquors were used each in 13% of cocktails. According to interviews, whiskey was the most popular spirit in bars that had whiskey central in their overall theme. Scotch and Japanese whiskey are the most popular ones in whiskey bars.

The question of price brought up differing opinions. Some emphasized how their bar values quality more than price yet still admitting that price is an important factor for customers. Bars interviewed on the bar street of Yongkang lu popular with young Western customers expressed a goal to provide quality cocktails but with a reasonable price. The bar review analysis found that the average price for a cocktail in Shanghai was 83,77 RMB, around 11,5 €. When whiskey was brought up in the conversations, almost all of the bar managers expressed concern about the availability of it in the current market. To some extent Scotch but most of all Japanese whiskey is seen as having such a high demand at the moment that the prices have gone up significantly. This was thought to possibly lead into an increased interest in other whiskey producers. One American bar manager commented the situation as follows.

Single malts have been so popular for so long, that the on hand quantity of it that's left, that is available is getting smaller and smaller and smaller, so there's less and less of it available. The Japanese are having the same problem with their single malts, so that stuff while very popular is also much harder to get now and so people are starting to transition over to something else.

Describing why people in Shanghai found some spirits as not palatable, the answer was always the same whether it was baijiu or an aged western spirits like rum or bourbon. The common notion was that people found them too strong and therefore not palatable by themselves and hard to work with in cocktails. However in contrast the strongly flavoured Islay whiskies were seen as somewhat of a trend at the moment in two of the whiskey bars and something that people have learned to like

Bar Managers have very little belief that baijiu would be something that would work in bars. Almost none of the bars, where the topic was discussed, had a single bottle of a Chinese spirit and the whole proposition seemed amusing and strange. None of the bar

reviews mentioned a cocktail made with baijiu even once. One Chinese bar manager was of the opinion that Chinese spirit is drunk with food and it doesn't suit the style of the bar. In Western owned bars, nobody was really asking for it. On the other hand it was suggested that foreigners might be looking at ways to start manufacturing Western styled spirits in China. Only one place interviewed did have a cocktail made with Chinese spirits. The following conversation took place with a Chinese bar manager.

Interviewee: There's no Chinese brand here. You know the most popular Chinese spirit is baijiu. Baijiu, the smell is too strong. It's not good for cocktails. The smell it's one of the important part of the cocktail so we want the smell is very balanced, but baijiu is too strong.

Interviewer: This year they've opened a baijiu cocktail bar in New York and also in Los Angeles. Do you think that's a good idea? I don't know how successful they are but they are trying it in America.

Interviewee: I just see maybe, that bartender's technology is very good, he can.

Interviewer: Work with a difficult ingredient?

Interviewee: Yeah, yeah, yeah. They can control the balance. They can control something like, or they can find a special ingredients match with baijiu.

One Chinese bar manager at a whiskey bar was of the opinion that the market would be going back to brandy in the future. He said that with brandies and single malt whiskies there is the most variation between different distilleries compared to for example tequilas and rums. However none of the other bars said they are selling much brandies or seeing it rising in the future. None of the bar reviews mentioned cocktails with brandy as the main spirit.

The introduction of whiskies from less known producer countries has had some mixed results. Two Chinese whiskey bar managers told that they have tried to sell American whiskies in their bars but with only a few people being interested. Overall no innate interest in unconventional whiskies had been noted by the bar managers but it was thought that it all depends on the individual products and how they are sold to the customer. One bar manager saw American whiskies as having an advantage in that they are much more flexible to work with in cocktails compared to single malts. He had himself tried very good whiskies from many different European countries including

Finland. The challenge he sees with new whiskey brands is not the quality of the products but rather the volume being large enough so that the product has a chance to make it internationally and not just get consumed only in its country of origin.

5.2 Customer Behaviour

Local Chinese customers were described as curious and interested in trying new things and usually drinking less than Westerners. Overall however, the effect of nationality was seen as very small in drinking habits. It was noted that with whiskeys Asians more often buy a whole bottle of whiskey whereas Westerners usually order each glass separately even though the quantities are pretty much the same. Some on the other hand felt that in general the Chinese are not embracing the concept of the bar. Many pointed out that traditional Chinese past times are preferred by the Chinese instead. These were most of all big dinners, going to a tea house, and then KTV, and nightclub. Everyone, with whom the subject was discussed, agreed that the portion of Chinese customers was growing fast. Still a lot of the customers in bars are Westerners staying in Shanghai. In the bars of the bar street of Yongkang lu, around 80% of customers were foreigners. However in other locations there are a lot of locals and other Asian nationalities also. Normally the customer base was described to be around one third of each Chinese, Westerners and other Asian. In one of the Chinese owned cocktail bars however, 80% of customers were locals. One Western bar manager describes the challenges with local customers as follows.

I have to say in this moment the Chinese customer, at this moment for our bar industry the Chinese customer is much less profitable and they drink less. Many times they come and try. Many times some drink like beer, or hot water, whatever. They stay a long time and they still don't really have the concept of the bar. There is the club. There is eating together but the bar, no.

Older customers were always thought of as having more money to spend and therefore some bars expressed the specific goal to have a high average age. Younger customers were seen as more likely to order a cocktail instead of a spirit on its own. The average age range of customers across all bars was from late twenties to early forties.

Especially whiskey bars reported slightly larger proportion of men as customers. This was also dependent though on the time of day. Women were seen as gravitating towards lighter tasting cocktails many times made with gin whereas men tended to go more for whiskies on their own or cocktails made with them.

Two bars in the research pointed out having as much as half of all customers being regular customers. A large proportion of regulars with close connections to the management was seen as even forming a kind of community. This had helped especially during the early days of the bar where the original clients have helped the client base to expand. An Italian bar manager describes how their bar started out as from the beginning having their Italian friends visiting the bar regularly and that the founders are still hanging out at the bar regularly. Because of Shanghai's problem with counterfeit alcohol, close connection with the owners and the clients has insured people that they can trust that they are given proper quality in the bar.

A lot of the customers do not know what they want to drink. In some bars as many as half of the customers are asking the bartender for advice in their drink choice. No clear pattern was found with speculations about what spirits might be popular in the future. However one thing that was pointed out was that much of what the future trends are going to be like is ultimately in the hands of bartenders.

I think a lot of that is going to be education and exposure so as new things become available here, as things that haven't been here previously start to show up, it has a lot to do with the bar staff at each one of these places who gets an opportunity to showcase something that's unusual, that's new, that's different, and start developing a relationship between the customers and that product.

5.3 Bar Management

Many different reasons were thought to affect why people come to the bar. Commonly mentioned reasons were a broad selection of good drinks, a good atmosphere connected to the theme of the bar, and nice staff who are ready to inform the customer about drinks. Talking about specifically local customers some additional reasons were given.

Chinese bar managers pointed out that newly rich customers are seeking a prestigious lifestyle and this is why they are interested in whiskey and cocktail bars. One Chinese bar manager thought that cocktail bars are seen as a healthier lifestyle, compared to for example nightclubs which have an association with drug use. Another Chinese bar manager in a hotel bar on the Bund felt that their bar's main attraction was the jazz house band and a lot of why the locals are interested in the bar is to experience Western culture. Across the board bar managers described people coming to their bar to relax and socialize. Business was only once thought of as a reason to come to a bar.

Before the interview with one of the Chinese bar managers, the bar had just held a cocktail course where the manager had taught local customers about the history and techniques of cocktails by explanation and making cocktails with the customers. The bar had held these kinds of courses every week for one year. Even though it wasn't one of the planned subjects to cover in the interviews, one of the most frequently brought up subjects by almost all of the interviewees was how important it is for the bartender to educate the customer.

So for example things like Monkey 47, it's a great gin. In fact it's one of my favorites. Does it sell as well in China as it does in other places? Not yet it doesn't because it hasn't been, there hasn't been that much education and that much exposure to it yet but as that happens and as the people here start to get a better idea of what these things are and start to get a little background on them and start to have a little history with them as far as consuming drinks made with them, that popularity starts to increase.

Brands are representing themselves in Shanghai but two bars expressed great interest in more collaboration. Only one whiskey bar told that they aren't doing any collaboration with spirit manufacturers. Two bar managers were themselves brand ambassadors for several brands and others told that they frequently organize tastings and brand introductions to their staff. A Chinese bar manager said that a problem they are having is that a lot of the sources to learn about Western spirits are books written only in English. He explained how at the moment all of their collaborations were with Japanese producers so they would be very much interested in doing collaboration or forming a partnership with a European producer.

All bar managers agreed on one thing. The future of the bar industry in Shanghai seems very positive. The foreigners interviewed had come to Shanghai for financial reasons

and saw the bar industry as something profitable. The locals on the other hand always stated their interest in bars and western drinks as a key motivation choosing their field of work. Most of the bars themselves were in fact new bars or were in the process of expanding to new locations. A Chinese bar manager commented the future of the bar industry as follows.

Yes I have been to lots of cities to have lots of people open the bar with my shifu. There's more and more bars opened in the small city like Wenzhou, like Wuhan, Nanjing and Qingdao, Taiyuan. There's more and more bars like this style opened, so as said the people richer and richer. They want been looked like a gentleman so it's good. Now is a good time for cocktail bars.

5.4 Findings

The existence of numerous high-end whiskey and cocktail bars with locals as part of the clientele points out that there exists a reverence towards Western styled bars and spirits. Western spirits like gin, rum, whiskeys and different flavoured liqueurs are at the moment an inseparable part of the cocktail bar culture in Shanghai. The idea of serving Chinese spirits in a bar by itself or mixed in a cocktail is almost non-existent. At the moment it seems that bar customers are looking for completely different products than previously popular in China. Nevertheless there are some very skilled bartenders in Shanghai and small Chinese influences are already finding themselves in the cocktails of high-end bars.

Bars are a place to relax and socialize for people seeking a prestigious lifestyle alternative to traditional Chinese past-times in Shanghai. Cocktail represent a new kind lifestyle brought by foreign expats and it is being embraced by also the local Shanghainese middle class. There are locals visiting bars regularly who are educated about cocktails and spirits but most of the customers often rely on the bartender's knowledge for advice if visiting a bar. The market is still immature when it comes to knowledge of the nuances of western spirits and therefore education is the key to new products being accepted by the Chinese customer.

Bars in Shanghai are looking forward to working with new products and brands in the market and this kind of collaboration is vital in exposing the customers to a new product. Overall Shanghai has a vibrant cocktail culture that only shows signs of growing in the future. So much that even some concern exists whether there is enough access to desired products.

6 CONCLUSIONS

Accompanied by economic growth, the overall alcohol consumption in China is increasing faster than anywhere else in the world. Spirits in the affordable luxury category are sought after by the new generation of a newly rich middle class who are seeking to express their modern lifestyle, success, and identity. The large picture of the Chinese spirits market is a market dominated by local baijiu and classic premium Western spirits, but the nightlife of Shanghai tells a different story. The emerging cocktail culture is distinct from the majority of current spirit consumption in China. Gin, rum and whiskies go hand in hand with the rapidly rising cocktail culture where the traditionally favoured baijiu is almost non-existent. The most sold Western spirit of China, brandy is to some extent found in whiskey and cocktail bars but it also is very rare.

Customers in cocktail bars seem to be looking for a distinctly different kind of lifestyle than previously available in Shanghai. The cocktail represents a premium western styled past-time which is a more sophisticated and healthy way to drink alcohol. This is embraced by foreigners in Shanghai as well as a growing number of local middle aged customers. However the bar is still a foreign concept for many local customers. Exposing new products to the market needs to be accompanied by working closely with bar professionals and making sure that both bar professionals and customers are conscious about the nuances of different spirits and cocktails.

A unique, complex and high quality tradition of different Chinese spirits does exist also. It is difficult to say what role baijiu will play in an emerging Chinese bar and cocktail culture. Whether it is customers embracing Western cocktails seeking to reconnect with local traditions or new customers seeking a familiar and approachable perspective to foreign drinks, it is probable that premium local spirits will be incorporated to Chinese cocktail culture at some point. However at the moment there are only very few signs of this happening. It will take time that the currently imported culture of the cocktail will assimilate with local traditions. There exists a rich tradition of Chinese tea and the infusion of different ingredients with alcohol is an essential part of traditional Chinese medicine. Some of this is already incorporated to cocktail culture but at the moment the Chinese influence in cocktail culture is mostly confined to the use of local spices and botanicals in classic Western cocktail variations.

Kyrö Distillery Company's spirits fit the cocktail culture of Shanghai very well. The rapidly growing number of cocktail bars in Shanghai, the financial centre of China, is an excellent starting point for foreign brands entering the huge Chinese spirits market. A diversifying and premiumising spirits culture in China is a chance for Western spirits to flourish in a growing market already among the largest in the world. Whiskies and gins are already the most popular spirits in Shanghai's cocktail and whiskey bars and especially whiskey has already a long history of exposure in China. There is a strong association of whiskey with Scotland and Japan, so again education, promotion and exposure will be the key in introducing new styles of spirits to the market. The affordable premium category fits well with the main customer group of the newly rich middle class. Although there is a clear interest in craft spirits, at the moment the desire for premium seems to be more prevalent with local customers than the desire for uniqueness and craft. Some details such as the closeness to the pure nature of Northern Europe and the use of wild and high quality botanicals might also be valued by a health orientated consumer trend.

This purpose of this thesis was to form an overall glance about the cocktail culture of Shanghai. In the context of as hard to define subject as culture, it is my opinion that the thesis was able to form an accurate representation of the subject matter. Due to limited resources the subject ended up being relatively narrow however. There is a clear problem of perspective throughout the thesis. Conducted through a foreign perspective the research resembles how a non-local would see the subject matter in question. Therefore ideas for further research would most of all include further understanding the Chinese perspective. These topics could include comparison of Chinese aesthetic art, Chinese tea and food culture, and Chinese views on health with cocktail culture and alcohol as well as more generally understanding the current cultural exchange between the West and China. Addressing the large majority of Chinese alcohol consumption, which happens outside of Western styled bars, in relation to Western spirits would also be a topic to research more deeply.

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APPENDICES

Appendix 1. Bar review ingredient analysis

Tampere School of Applied Sciences			BAR REVIEW ANALYSIS		
Hospitality Management					
Thesis					
Mikael Wallin					
SPIRITS			FRUITS AND BERRIES		
Ingredient	Times used	Share	Ingredient	Times used	Share
Absinthe	2	4 %	Apple	3	6 %
Botanical liqueur	4	9 %	Apricot	1	2 %
Fruit liqueur	6	13 %	Cherry	4	8 %
Gin	14	30 %	Cranberry	2	4 %
Mezcal	1	2 %	Grapefruit	3	6 %
Rum	7	15 %	Grenadine	2	4 %
Whiskey	6	13 %	Kiwi	1	2 %
Vodka	6	13 %	Lemon	12	24 %
Total	46	100 %	Lime	13	26 %
			Lychee	1	2 %
WINES AND MIXERS			Mango	1	2 %
Ingredient	Times used	Share	Orange	5	10 %
Angostura bitters	1	4 %	Pear	1	2 %
Aromtazied wine	2	8 %	Raspberry	1	2 %
Bitter	5	20 %	Total	50	100 %
Champagne	1	4 %	OTHER		
Cola	1	4 %	Ingredient	Times used	Share
Ginger beer	4	16 %	Bacon	1	13 %
Osmanthus wine	1	4 %	Celery	1	13 %
Tonic	4	16 %	Chili	1	13 %
Vermouth	6	24 %	Chocolate	1	13 %
Total	25	100 %	Cream	1	13 %
HERBS AND SPICES			Cucumber	1	13 %
Ingredient	Times used	Share	Hazelnut	1	13 %
Basil	1	5 %	Maple syrup	1	13 %
Cardemom	1	5 %	Total	8	100 %
Ginger	2	9 %	TOTAL		
Ginseng	1	5 %	Ingredient	Times used	Share
Mint	8	36 %	Wines and mixers	25	24 %
Orange blossom	1	5 %	Herbs and spices	22	21 %
Rose	2	9 %	Fruits and berries	50	48 %
Saffron	1	5 %	Other	8	8 %
Shiso	2	9 %	Total	105	100 %
Sichuan pepper	1	5 %			
Violet	1	5 %			
Yuzu	1	5 %			
Total	22	100 %			

Appendix 2. Bar review brand and price analysis

Tampere School of Applied Sciences		BAR REVIEW ANALYSIS	
Hospitality Management			
Thesis			
Mikael Wallin			
BRANDS		PRICES	
Ingredient	Times used	Cocktail	Price (RMB)
Monkey 47	1	Ginseng Martinez	80
Absolut	1	Saffron Gin & Tonic	160
Amaro Averna	1	Dubonnet Fizz	80
Beefeater	1	Carol	80
Campari	2	Dr CJ	70
Carpano Antica	1	Shiso-jito	80
Cointreau	1	Back to Love	80
Cynar	1	God	90
Dolin Rouge	1	Martinez	72
Dubonnet	1	Fernet & Coke	68
Fernet Branca	1	Jack Rose	70
Four Roses	1	Zacara Sazerac	80
Hendrick's	3	Fennel Cooler	78
Jameson	1	Mr Manabu	88
Jägermeister	1	Huangpu Cocktail	80
Kahlua, Martini	1	Snow on Mount Fuji	75
Perrier-Jouet	1	The Fresh Green	80
Ransom Gin	1	Health No. 1	80
Rhittenhouse rye	1	Old Fashioned	88
Ron Zacara Centenario	1	Vespers	88
Storico	1	Cosmopolitan	88
		Italian Mojito	88

Appendix 4. Customer behaviour analysis

Tampere School of Applied Sciences								CUSTOMER ANALYSIS								
Hospitality Management																
Thesis																
Mikael Wallin																
1. Nationality affects preferences very little																
Interview		1	2	3	4	5	6	7	8							
Answer		1	3	2	9	1	2	9	1							
2. Men gravitate more towards whiskey, wome towards gin																
Interview		1	2	3	4	5	6	7	8							
Answer		3	3	2	2	9	9	2	9							
3. Older customers are seen as spending more																
Interview		1	2	3	4	5	6	7	8							
Answer		3	9	3	9	2	9	9	9							
4. People go to bars to relax and socialize																
Interview		1	2	3	4	5	6	7	8							
Answer		3	3	3	3	3	9	9	2							
5. Bars are providing a different kind of lifestyle																
Interview		1	2	3	4	5	6	7	8							
Answer		3	2	9	9	3	3	3	3							

Appendix 5. Drink choice analysis

Tampere School of Applied Sciences									DRINK CHOISES ANALYSIS																
Hospitality Management																									
Thesis																									
Mikael Wallin																									
6. A lot of customers ask the bartender for advice																									
Interview									1	2	3	4	5	6	7	8									
Answer									3	3	9	2	9	3	3	9									
7. People are curious to try new products																									
Interview									1	2	3	4	5	6	7	8									
Answer									2	2	2	1	2	3	2	9									
8. Classic cocktails are the most popular drinks																									
Interview									1	2	3	4	5	6	7	8									
Answer									3	3	3	3	3	9	2	9									
9. There is a problem with the availability of single malts																									
Interview									1	2	3	4	5	6	7	8									
Answer									3	3	9	1	9	9	3	9									
10. Having the drink affordable is especially important																									
Interview									1	2	3	4	5	6	7	8									
Answer									2	9	3	9	3	1	1	9									
11. Having the drink look good is especially important																									
Interview									1	2	3	4	5	6	7	8									
Answer									3	9	3	9	3	9	9	3									

Appendix 6. Bar management analysis

Tampere School of Applied Sciences								BAR MANAGEMENT								
Hospitality Management																
Thesis																
Mikael Wallin																
12. Does and is interested in doing collaboration with manufacturers																
Interview	1	2	3	4	5	6	7	8								
Answer	3	3	2	0	3	3	1	9								
13. It's essential for a bar to educate the customers																
Interview	1	2	3	4	5	6	7	8								
Answer	3	3	9	3	2	3	9	9								
14. Bars are a profitable business to get into																
Interview	1	2	3	4	5	6	7	8								
Answer	3	3	2	2	3	3	2	9								
15. Bars are an interesting and satisfying industry																
Interview	1	2	3	4	5	6	7	8								
Answer	2	3	2	3	3	3	9	2								

