



BI Daagliks - BI Daily

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Economic Environment

US to slap tariffs of 25% on French wines

The World Trade Organisation has cleared the US to hit EU goods with \$7.5bn of tariffs. Wines from selected EU countries are on the hit list.

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Global Trends - Wine Industry Key Elements

Colour and price - welcome to wine's future as a commodity

By Richard Siddle, The Grapevine, 3 October 2019 Issue 99

That all sounds a bit depressing. What do you mean by price and colour?

The price of the bottle and the colour, be it red, white, rosé and sparkling are fast becoming the way some of our biggest, most influential and important retailers of wine are deciding which bottles to put on their shelves. The supermarkets and hard discounters are choosing to fight between each other, and the online competition, by increasingly treating wine like they do butter, milk, bread or pasta. As a commodity where shoppers are just looking for the basics, their every week purchases that they want to see as lowly priced as possible. By stripping out country and regional specialists from their wine buying teams, they can rely on well trained grocery buyers, skilled in negotiating the best possible prices with all the emotion taken out.

My word, that all sounds very cold and calculating?

It's certainly calculated. At least in terms of making sure the numbers in any wine negotiation are stacked in the supermarkets' and discounters' favour. It is, though, nothing against the wine industry per se. It's simply a reflection and consequence of the even more intense competition that our Big Four multiples, in particular, are having to live with just to stand still, never mind reach anywhere near the growth targets their shareholders and the City would like to see. The major retailers are haemorrhaging profits and can't carry on the way they were. Just look at the level of job losses across the grocery retail sector. The British Retail Consortium says 72,000 jobs have been lost in the last year. Tesco alone has announced over 13,000 redundancies this year, as part of a £1.5bn cost cutting programme. Morrisons has axed 1,500 staff this year, and Asda expects to lose 2,500 staff by the end of 2019.

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And wine is being hit in the cross fire?

Buying teams across all categories have been culled and the wine teams have had to find new ways to respond and be more effective in such tough trading conditions. Wine, though, is also one of the biggest bargaining chips the major retailers have. It is one of its key calling cards, used to

attract shoppers into their stores. The fact it is now the nation's favourite alcoholic drink ironically makes it even more vulnerable to being treated more like a commodity. Wine is not alone. Lager, beer, gin and vodka have long been used by the Big Four and discounters to show off their biggest promotions, deepest discounts and lowest prices.

But wine with all its expertise and complexities can't surely be treated the same way as all those other commodities you mention? They don't have to worry about tax and duty for a start when hitting ever lower price points?

No they don't, but the complexities of getting a pint of milk, or pack of butter on shelf for the prices being demanded are putting similar, if not worse, pressure on their respective supply chains where margins have already been shredded to the bone. What is happening in wine is simply another step in supermarkets and the likes of Aldi and Lidl doing what they do best. Offering the best value for their customers. If the government is hell bent on increasing duty on wine, then the big grocers can only respond by cutting costs out of their wine teams and making wine more of a commodity category.

So forget your WSET exams, just focus on the colour and the price?

To be fair you still need to know something about your wines within those very broad categories, but by giving your buyers the freedom to buy just on colour or price means they can take a far more category management approach and look to focus solely on those wines their customers really want. Be it not just more SKUs of rosé and sparkling wine, but at the prices their customers are happy to pay. It will certainly increase the number of winners and losers amongst major wine producers and their suppliers.

What does this mean our supermarket shelves will look like?

We can expect to see fewer signs and flags of countries and regions to guide us through the wine aisle. Instead it will be £5, £6, £7, £8 fixtures that will dictate how we shop. The word on the grapevine (see what we did there) is that buying by price is the way Sainsbury's is going, whereas colour is the preferred option for Aldi.

Any positives to come out of all this?

It does also show how seriously the major supermarkets and discounters view the wine category. They know they have to find a way to make it work. If that means going down the colour and price route, then so be it. It might also mean giving new chances to countries and regions that in the past have been overlooked by buyers always returning to the tried and tested Old and New World countries. If you have the right colour of wine at the right price then you, potentially, have just as much chance to be listed as any other wine.

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