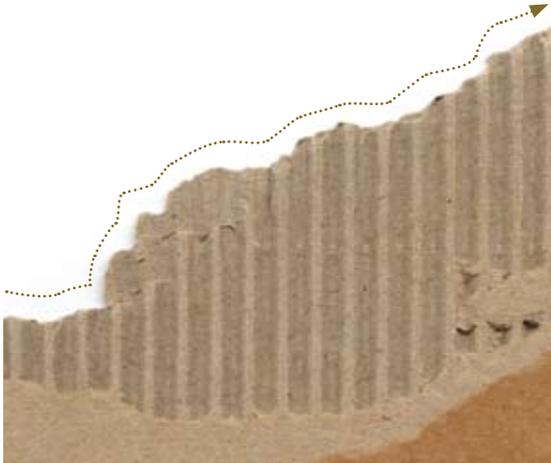


VININTELL

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Trends influencing wine consumption globally and in South Africa in particular

PART 2





TRENDS INFLUENCING WINE CONSUMPTION GLOBALLY AND IN SOUTH AFRICA IN PARTICULAR (continued)

PART 2

Welcome to this edition of the quarterly newsletter as a value-added service to members of the S A Wine Industry. The purpose is to provide you, the decision-maker, with meaningful insight into events, trends, opportunities and threats through the analysis of the ever-changing competitive environment. The analytical approach is a multifaceted, multidisciplinary combination of scientific and non-scientific processes.

We trust that this publication will become part of your strategic thinking, strategic planning and decision-making process. You are welcome to send comments and suggestions to the publisher.

“We used to market wine to people like ourselves, who loved it and knew a lot about wine. Now, we’re trying to learn what people want, what drives them to buy certain wines.”

Karla McKee, Trincherro Family Estates, California

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IMPACT OF TRENDS ON GROWTH

There seem to be three consumer groups of growing influence that should be considered, and addressed, to ensure long term industry viability:

1. Infrequent wine consumers: A large pool of consumers of all ages who like the taste of wine but drink it infrequently because they are intimidated by the idea of choosing and buying it and/or see wine as a drink for special occasions only.
2. The trendy wine consumers: A similarly large pool of young consumers who are attracted to wine but want it to be fun to buy, to fit with their lifestyle and to meet their desire to always be seen with what’s new and trendy.
3. The young female consumers: An increasing number of women are drinking wine and making purchasing decisions.

The common thread is that many of these consumers see wine as just one among many attractive alcoholic beverages available to them. Each of these categories will now briefly be discussed.

1 Infrequent consumers

Infrequent wine drinkers generally like the taste of wine but drink it only once a week or less. In the UK, more than a quarter of the 31 million wine drinkers drink wine less than once a month (according to the research firm Wine Intelligence). Also according to Wine Intelligence research, many infrequent consumers would choose wine more often if they did not feel so intimidated by what they see as the hard work required understanding it and making the right choices without embarrassment. They say they want clear information, not formal education.

The vast majority of consumers want to be able to easily and consistently identify the wines they will enjoy without having to ask for help and getting confused by the numerous labels available. Retailers are most often the source for a recommendation. Research in the US also showed that shoppers often appear confused during the wine selection process.¹

The situation is exacerbated in emerging wine markets which lack a developed wine culture. New wine drinkers want a clearer idea of what they are buying and what it will taste like, and the opportunity to purchase wine in something other than full-sized traditional bottles with corks. Even wine closures can prove a barrier. In Japan, corkscrews are a rare item in Japanese kitchens yet much imported wine into Japan is sealed with cork. All age groups seem to be attracted by more accessible communication.

2 Next generation consumers

Research shows that Generation Y (those born between 1975 and 2000)² have the potential to support continued growth in wine consumption beyond 2011. As a demographic group they are larger in size than Generation X. Generation Y is more likely to purchase a bottle of wine between US\$5.00 and US\$9.00 dollars. This is consistent with the importance of the inexpensive and good-value characteristics when purchasing wine for Generation Y consumers. These consumers are concerned with price and getting a good value. Generation Y consumers perceive the New World wines to be of higher quality than do consumers from the other generations. Generation Y are young wine consumers and are especially important for the industry because they offer an opportunity for growth—these younger generations



are developing tastes now that are likely to last as they age.³

Recent research by the US Wine Market Council suggests that the Millennials who are reaching drinking age are adopting wine as a preferred beverage—drinking at core wine levels (two to three times per month). They like the taste of wine and associate it with fun times in a casual context, but also perceive it as a sophisticated beverage. In Europe young adults are turning to wine because they perceive it as more sophisticated than Alcopops.⁴ Wine sales are strongest in countries with a wine culture, but even in countries where beer and spirits have traditionally been the on-premise drink of choice among the 18-25 demographic (e.g. the UK and the Netherlands) there has been an explosion in stylish bars and a demand for premium quality drinks, including wine. Rosé and sparkling wine have been major beneficiaries of this trend.

These new consumers are not loyal to brands or even country of origin but they will pay a premium for their alcoholic beverages.

3 Female consumers

Women are drinking more wine and are making or influencing more purchasing decisions. In South Africa in 2008, 52 percent of consumers of bottled wine were male and 48 percent were female.⁵ Also in other emerging markets women play a central role e.g. in China, where a Vinexpo study surveyed the behaviour of 2,810 women in four Asian countries to compare and contrast their consumer habits, depending on whether they lived in China, Japan, Hong Kong or South Korea and made some interesting findings.

- More than 40 percent of female consumers in Japan, the most established wine market in Asia, drank wine more than twice a week. Japanese women often allow other parties to influence them when choosing wine.
- The wine industry should pay more attention to Chinese women who are now consuming wine at significant levels. 50 percent of the Chinese women surveyed were solely responsible for purchasing their

wine, never seeking recommendations from third parties. 38 percent claim that they drink wine because it is good for health, while only 22 percent claimed to drink wine for its taste.

- 92 percent of the Japanese respondents and 74 percent of the Koreans interviewed selected wine for its taste.
- Japanese, South Korean and Chinese women all said that red wine is their preference.

Wine Intelligence research shows 55 percent of all wine purchased in the UK is bought by women, and that western women buy wine primarily for enjoyment and social reasons, rather than perceived health benefits.⁶

Although liqueur-style beverages aimed at women are nothing new, beer and wine makers are more actively pursuing the female market e.g. Karmi, a regional brand produced by the Polish division of Carlsberg. Categorised as a near-beer for its low alcohol content (0.1 percent), the drink has been revamped and is now being targeted to women.

Karla, for example, is marketed as improving health and well-being. The mixed drink comes in three varieties: Balance, Well Be and Acti-Fit. All are low in alcohol content (1 percent) and are blends of beer and fruit juices. Emphasis on health prompted an unusual distribution channel: Karla is sold through pharmacists.⁷

Key drivers of this wine consumption trend include increased female participation in the workforce, greater disposable income and a rise in the age of first marriages. Women also have driven the growth of sparkling wines and rosé sales, with many seeing it as an entry point into the wine category. Rosé's popularity continues to grow in the UK (7.2 percent of the light wine market and annual growth of 34 percent), Europe (up to 10 percent of the wine market in countries such as the Netherlands) and North America. In some markets Rosé is portrayed as a distinct brand and given its own sections in supermarkets.

In South Africa Rose/Blanc de Noir (sold in 750ml glass containers) has been sold in increasing volumes since 2007 (see figure 2).



Karmi, Carlsberg's "near beer"

Source: trendwatching.com

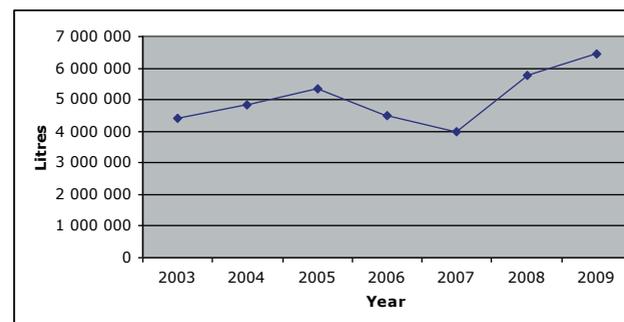


Figure 2: Rose wine sold in glass containers (in litres).

Source: South African Wine Industry Statistics, September 2010.



4 Changing perceptions

Retail consolidation has permanently changed the shape, scale and demands of commercial engagement and consumer exposure to wine. Most wines are now firmly established as a fast-moving consumer-good (FMCG) and sold with similar promotion-driven dynamics to other FMCG goods. Traditionally, FMCG markets offer a small number of dominant brands which capture a large percentage of the market and generate a high degree of repeat purchase. The upside of this is increased potential for a larger, more accessible consumer franchise, targeted through coordinated retail platforms that enjoy greater economies of scale, supply chain efficiencies and positive consumer impact. The downside is that the concentration of buying power and control of consumer access comes at a margin demand that is increasingly difficult to sustain for many companies.

Regarding the retail channel, whereas in the past the retailer was merely a conduit to supply the market, the 1990s saw increasing customer awareness and the demand for different wine styles altered the market landscape. Rather than a production market, customer tastes are now dictating the styles of wine produced. The current market has seen retailers take a far more influential role in directing consumer tastes, such is the overwhelming choice offered to a wine buyer. Demands are now placed on wineries and winemakers to produce wine to specification at directed prices, with wineries that fall out of mainstream distribution networks facing difficult times. As drinking choices have exploded, so have sales channels and opportunities. The internet is an obvious tool of supply; it also fosters demand through providing an unending source of wine information.

5 Trading up, buying down

Unlike the beer market, wine has not experienced a sustained decline and has continued to grow in value in some regions despite the economic crisis albeit at a slowed down rate. Success in the market will be driven by appealing to the continuing growth of consumers' trading up tendencies in core markets while educating and heightening the appeal of wine among new consumers in emerging markets and younger demographic segments.⁸

The rationale behind trading up is that consumers will automatically want more once it is explained to them what more there is to have, but the mechanism is still ill-defined and the supporting evidence is lacking. While it may work with powerful and well-established brands, it is unlikely to work as a general proposition, especially as modern winemakers are adept at making low cost wine taste good. There is a less obvious "next stage" than in the past when cheaper wines were more obviously lesser wines. A significant part of the issue is the diversity in the perception of wine quality. Numerous studies have failed to find an agreed and meaningful definition that is relevant to consumers, wine producers and wine professionals (including critics and retailers). Even among consumers, low-involvement consumers have quite different perceptions about wine quality to high-involvement consumers ("it tastes good" versus "good balance and structure").⁹

Elements of how wine quality can be determined include scientific analysis, reviews by wine critics and recommendations by sommeliers and retailers, wine show medals, regionality and price. However, for many consumers, perceptions of quality also are affected by the occasion or environment in which a wine is consumed. Even influential wine writ-

ers admit to shifting definitions of wine quality. In The Observer newspaper in August 2006, UK wine writer Tim Atkin wrote: "My perception of quality has changed over the past decade. I used to be impressed by wines with power, concentration and a load of fruit, but nowadays they bore me. I am increasingly drawn to wines that are enjoyable with a meal, rather than a meal themselves, that leave you wanting more rather than less."

Increasing sales of higher priced wines which is the ultimate objective of the trading up proposition are more likely to be achieved through better targeting of niche market opportunities based on a clearer understanding of consumer trends and more focussed efforts to profitable distribution channels. An AC Nielsen study in the US in 2010 found that compared to before the start of the economic downturn, 23 percent of wine consumers say they purchase less expensive products. Of those that did trade down, more than two-thirds (79 percent of wine consumers) say they can generally find good products at lower prices. And for those that

are not finding the quality as good are willing to sacrifice some quality in order to save.¹⁰

The majority of trading down consumers tells Nielsen they will continue to buy less expensive products as the economy continues to improve. When examining those consumers that report that they would trade back up, Millennials in particular, are relatively more likely to trade back up, compared to other age groups across all alcohol beverage categories. Although trading down activity dominated the recession discussion, especially among wine consumers, a large segment of consumers stood fast in their price selections. Yet there is a noteworthy segment of consumers who did trade down, and it appears that there will not be much of a trade up comeback from that group.

6 The appeal of quality

While "trading up" may not be a given, there is a growing demand for premium quality wine. It is interesting to note, however, that general research into consumer choices sug-

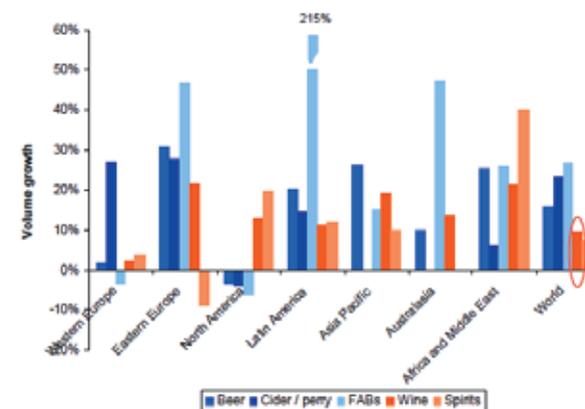


Figure 3: Growth in alcoholic beverage volumes, 2005–2010

Source: Euromonitor, 2009



gests the motivation for choosing premium products is moving away from status to indulgence a reward for leading a busy life.

In Europe, Euromonitor's forecasts that the 50-plus age bracket will be drinking more wine by 2010 (switching from beer and spirits for health reasons) and will buy higher-priced wines, adopting a "less but best" approach. As illustrated in Figure 3, Euromonitor International anticipates continued growth in the global still table wine market to 2010, rising to 3.1 billion 9-litre cases (or 1.8 percent growth per annum) a 5.64 percent increase compared to 2004. However, wine is not anticipated to grow as fast as beer (+3 percent per annum), cider (+4.2 percent per annum) or flavoured alcoholic beverages (+4.9 percent per annum) over the period. The overall consumption picture in the world is that a billion more wine bottles will be drunk between 2009 and 2013. This is similar to the forecasts in the Vinexpo/IWSR 2010 study.

7 US will be largest wine purchasing country

In older European countries consumption used to be up at about 70 litres a head, but that is settling out at around 20 - 22 litres per capita. In the UK, consumption has stagnated somewhat. In North America consumption is growing rapidly and the US will be the largest purchasing country in the world in the next 5 years to 2015. China and India will soon be among the top consuming countries in volume purely due to their large populations.

8 Slower growth in traditional markets

Wine drinking is increasing in South Africa, in South Africa's key export markets, and in a

number of key emerging markets, but decreasing in many of the wine producing competitors. Wine consumption per person and wine's share of the total alcohol market are still rising in the UK, the US, Canada, New Zealand, Ireland, Denmark, the Netherlands and Sweden, but falling in France, Italy, Spain, Portugal, Chile and Argentina. France and Portugal have shown the largest rates of decline, with Italy having passed France as the world's largest wine consumer per person.

It seems that Canada, with a growth rate in wine consumption of 20 percent per annum, is the country with the greatest potential for organic wine sales, representing a turnover of around US\$2 billion per year according to research conducted in 2010.

9 Eyes on the emerging markets including Asia

Emerging consumer markets such as Russia, China, India and South Korea are anticipated to grow above global trend rates. These markets are evolving rapidly from a consumer goods perspective, and the complexity of consumer beverage needs varies by region and income levels. As such, each should be viewed as a separate market. They are discussed in more detail in paragraph 5.

China is the 8th largest wine-consuming country, having drunk more than 74.58 million 9-litre cases of still light wine in 2008. Between 2004 and 2008, the Chinese consumption of still light wines grew by 80 percent and should continue to increase to reach more than 100 million 9-litre cases by 2013. Between 2009 and 2013, half the growth in worldwide wine consumption is expected to be located in just two countries: the US and China. The US and China are



FABs

Source: Just Drinks.com, 2010

expected to increase their still light and sparkling wine consumption by 53.241 million 9-litre cases between 2009 and 2013, which represents 57 percent of the total growth in consumption worldwide over that period. Sparkling wine consumption in Asia will increase by 10.69 percent between 2009 and 2013 and India moves into 10th place with an expected increase of more than 1.47 million 9-litre cases between now and 2013.

10 Beer remains wine's largest competitor ant FABs grow in new markets

In a number of global markets, the beer category is experiencing off-trade growth rates ahead of wine and in emerging markets, beer is experiencing strong growth. This trend is evidenced by the merger and consolidation activity that is occurring, particularly across the Brazil, Russia, and India and China (BRIC) regions.

Incidentally, a recent study of organic wine consumption highlights the initiatives being carried out in Brazil to heighten awareness and encourage organic wine consumption, although currently this type of consumption

represents very low figures on the South American continent.¹¹

While the fad for flavoured alcoholic beverages (FAB) has passed in Western Europe and North America, the category is expected to continue to outpace other alcoholic beverages in Eastern Europe, Latin America and Asia. The new offers incorporate the health mega-trend. Against the backdrop of the economic crisis, the beer, cider and FABs market has faced an increase in the challenges already confronting it in terms of slowing down the trend for declining volumes and faltering value. Success will be defined by compromising consumers' premiumisation impulses, habitual and sensory preferences, with their shift to off-trade consumption and concern for value-for-money.¹²

11 Red wine is most popular

The majority of world wine consumption is red accounting for 51.86 percent of the total in 2008. With growth expected to be 3.79 percent by 2013, this proportion should increase slightly to reach 52.27 percent in 2012. World consumption of white wine, however, should stabilise between 2008 and 2013, increasing by only 1.15 percent to



reach 955.251 million 9-litre cases by the end of the period. Although rosé wines are drunk significantly less throughout the world, the greatest increase is forecast to come in this category with growth estimated at 6.13 percent between 2008 and 2013. Significantly, the rise in the value of wine sales is twice as fast as the increase in volumes consumed. World wine sales in 2008 reached US\$151.817 billion, up 9.87 percent compared to 2004.

Consumer trends in the South African domestic and South Africa's key export markets (existing and emerging) are reviewed below in more detail.

MANIFESTATION OF WINE CONSUMPTION TRENDS IN SELECT COUNTRIES AND REGIONS

1. South Africa

Wine consumption in South Africa is certainly awakening among certain market segments. The 2010 Soweto Wine Festival attracted 82 of the country's more than 600 wineries.¹³ About 5 percent of those attending have black owners but the festival has been successful in offering drinkers an alternative to beer.¹⁴

While South Africa is the world's seventh-largest wine producer, its per capita consumption ranks it in 30th place, with people drinking an average of 7.5 litres a year, according to SAWIS statistics.¹⁵ That compares with France and Italy's average of over 50 litres. The Black market regards wine as aspirational and this is reflected in the increase between 2005 and 2008 from 1.87 million consumers of bottled table wine (con-

sumed in the past seven days) to over 2.23 million in 2008. This equates to an average increase of 6 percent per annum.

Although more adults are drinking wine¹⁶ on the opposite side of the coin, there is definite trend towards less wine consumption per individual. The domestic sales of natural wine for the period August 2009 to July 2010 is 2.1 percent below that of the previous corresponding period. Domestic sales in natural wine in 2009 were 268.8 million litres compared to 312.4 million litres in 2008. This is a clear indication that the continuing economic recession and current exchange rate situation impact severely on the industry (see table 1).¹⁷

The per capita wine consumption (litres per capita) in South Africa has once again decreased in 2009 (see table 2). Since 2000, the per capita natural wine consumption has decreased from 8.21 to 6.05 in 2009. The trend is similar in sparkling wine and in fortified wine and the total wine consumption since 2000 has decreased from 9 litres to 6.90 litres.

2. United Kingdom

The UK is by far South Africa's largest export market in packaged and bulk natural wine followed by Germany and Sweden.¹⁸ Latest figures from market analysts AC Nielsen show sales of South African wines have overtaken French for the first time in the UK wine market. South Africa is now the fourth largest selling country for wine in the UK.¹⁹

In the UK, per person consumption increased from 12.6 litres in 1994 to 21.1 litres in 2004 with a total consumption of 1.2 billion litres. New World wines excel in the UK, with around 55 percent share of total wine consumption. The major driver of increased consumption has been affluent middle-aged

Table 1: Domestic sales of natural wine (gross litres).

	2007	2008	2009	2009/2008
Domestic sales	Million l	Million l	Million l	Trend
Natural wine 1	312.1	312.4	268.8	95.0
Fortified wine	34.1	33.7	33.4	99.1
Sparkling wine	9.2	9.7	8.5	87.6
Brandy@ absolute alcohol	20.0	19.3	18.1	93.8

1) Includes wine used in grape-based liquor and alcoholic fruit beverages.

Source: Wine Industry Information, SAWIS, September 2010.

Table 2: Per capita wine consumption in South Africa.

Year	WINE – LITRES PER CAPITA			
	Natural Wine	Sparkling Wine	Fortified Wine	Total
2000	8.21	0.13	0.66	9.00
2001	8.20	0.15	0.66	9.01
2002	8.04	0.17	0.70	8.91
2003	7.00	0.17	0.70	7.92
2004	6.73	0.17	0.75	7.65
2005	6.43	0.18	0.76	7.37
2006	6.24	0.19	0.71	7.14
2007*	6.52	0.20	0.71	7.43
2008*	6.43	0.21	0.69	7.33
2009*	6.05	0.17	0.68	6.90

Sources: Figures based on industry sources.

* Estimates

consumers rather than growth in younger consumers' number. The 35-to-54 age group represents the biggest wine consuming segment. Wine style, price and promotions are the factors that influence consumer purchasing behaviour in the UK. Other factors include recommendation by friends or family and brand familiarity.

In the total alcoholic beverage market the on-trade channel still holds a greater volume share than off-trade channels, but this picture is skewed in the wine market. Off-trade sales of wine account for approximately 79 percent of the market by volume while on-trade volume sales represent 21 percent. This is a similar trend in other markets and in South



Africa. Trading conditions have also been far from favourable in the UK due to a mix of economic pressure, unfavourable exchange rates, taxes on alcohol and the widespread deep discounting (three bottles for £10) practices adopted by supermarkets in particular in a bid to encourage spending.²⁰

3. United States

According to research compiled by the International Wine & Spirit Record (IWSR, 2010), the US will dominate global wine demand by 2012 as the country's drinking habits shift increasingly towards spirit and vintages. Despite wider concerns over consuming spending in the current economic downturn, by 2012, consumption of imported wines alone is expected to increase by 17.9 percent from 2008. The findings, supplied jointly with the international exhibition Vinexpo in March 2010, reflect wider optimism for the global wine market, with demand expected to increase by six per cent by 2012, amounting to 2.816 billion cases. The research suggests that the US market will be particularly significant in pushing this growth for both wines and spirits over the coming years after consumption of red, white and rose varietals rose by 14 percent between 2003 and 2007.

Red wine currently dominates US consumption, with Americans estimated to have consumed more than 1.47 billion litres over 2008. It is predicted that sales of red wine could rise to 1.74 billion litres in the next five years (to 2014). Consumption of rosé wine is forecast to rise by nearly 10 percent, from 565 million bottles to 620 million bottles, and white wine consumption is forecast to rise by 5.4 percent, from 1.3 billion bottles in 2009 to 1.4 billion in 2012. In 2007, the US was the fourth largest wine-producing country in

the world, falling behind Italy, France and Spain respectively.

The 20+ age-group is emerging as core rather than marginal consumers. The total market is still quite small, however, with just 12.5 percent of the drinking-age population (over the age of 21) accounting for 86 percent of total consumption, and 43 percent drinking no wine at all. Supermarkets and liquor stores are the preferred distribution channels and US wines generally dominate the lower and higher price categories. Several cultivars are widely known and no grape dominates consumer preferences. In the US, all sales, including wine sales are about convenience and comfort and making the purchase decision easy for the consumer. They want to have an interesting story to tag along with the bottle of wine.²¹

Ever since the US implemented its Organic Law in 2002 to accredit these products, organic wine consumption has also grown by 20 percent per year in the US. In the US, organic wine sales represent close to US\$26 billion per year.²²

4. Continental Europe

Continental Europe includes a number of key export markets for South Africa wine, including Sweden, Germany and the Netherlands. Total wine consumption is 14,919 million litres with consumption per person per country varying between five and 35 litres. Whereas in 2003, the UK and the Netherlands accounted for 72 percent of all South Africa's packaged wine exports, today the UK and the Netherlands, together with Sweden, Germany, Denmark and the US, make up 72 percent of these sales.

Europe is a large wine market providing steady growth for New World wine at the

expense of the Old World. Consumers are relatively open-minded towards innovation and new products so there is a promising future for New World wines. Consumers are generally price-sensitive and are driven towards their own (non-English) culture. There is also increasing competition from Australia, Chile and California. There is an untapped potential for wine within the large on-trade segment, estimated at 500 million litres in Germany, the Netherlands, Denmark and Sweden. In Germany wine represents around 30 percent of total alcohol consumption. Much of the wine sold in Germany is from EU countries, but New World wines are slowly increasing market share.

The growing wealth in Denmark combined with the lowering of taxes has seen a shift in consumer trends towards especially red wine although it remains predominately a beer-drinking nation.

For the past 50 years, wine consumption (average litres) in the Netherlands has increased from 1.6 in 1959 to 21.7 litres in 2009 (21.6 litres in 2008 and 2007).²³ This equals an average annual increase of about 5.5 percent. In 2008, almost 20 percent of the Dutch citizens drank wine on a daily basis. In addition, wine is gaining in popularity in comparison to other alcoholic drinks. Wine is the only spirit of which relative consumption has grown since 2000.²⁴ Beer, aperitifs and spirits all had to accept a reduction in market share at the expense of wine. Due to the globalisation of the wine market New World Wines have acquired a fixed place on the shelves. Dutch wine imports are still dominated by European wines but there has been strong growth in sales of New World wines, particularly from South Africa, the second largest seller of wines in the Netherlands.^{25,26}

The high duty on alcoholic beverages in Sweden encourages consumers to buy wine in Denmark and other neighbours. Despite this, wine sales increased since 2005 after falling during 2004. Sales in Sweden more than trebled, to reach 11.4 percent in 2005. Much of the Swedish wine market is supplied by the traditional Old World nations such as Spain, Italy and France. The largest New World supplier is South Africa. South African white wines are the most popular in Sweden, while reds currently occupy fourth place.²⁷ There is a large market in Sweden for soft packs or bag-in-box wines.

Spanish wine producers are increasingly dependent on export sales to balance the books as the country's economic crisis enters into the second half of 2010. As consumers have tightened their belts and stayed at home, the traditionally strong on-trade has been a visible casualty, losing sales to the off-trade. Export prospects are looking up and notably so in the UK and the US although pricing continues to be a major factor.²⁸

In terms of organic wine consumption trends, most European countries have registered continuous growth in consumption of between 5 and 15 percent per year. Sweden registered the highest growth rate at 18 percent per year, followed by Holland, 10 percent, Denmark, 8 percent, Italy and Switzerland, 7 percent, and France and Austria, 5 percent. Germany, the first country to invest in organic wine production, is, together with France and the UK, one of the countries which generate most profits from this type of product. The UK is also one of the few countries which registered a drop in organic wine consumption; in this case of 12 percent owing to the fact that supermarkets withdrew the product for fear that commercial centres would be unable to sell it.²⁹





5 Emerging markets

Russian consumption to grow significantly

Russia is one of the fastest growing wine markets in the world (driven largely by affluent young people making the switch from vodka) and government initiatives are supporting this. A number of analysts predict Russia and the countries of Eastern Europe to show significant growth in the next five years. Both red and white wine are popular in Russia. Per capita, wine consumption in Russia accounts for about 6 liters of wine per year (4 liters in 2008) and 1.7 liters of sparkling wine and around 15 litres for vodka, the national drink.³⁰

Russia's wine market grew at an average annual rate of 6 percent between 2002 and 2007 to reach a size of 11.6 million hectolitres, according to figures published by market research group Euromonitor in 2008. Most of the drinking takes place at home making off-trade sales and the rise of Russia's retail sector particularly important. The bar scene in major Russian cities is not as developed as in western markets like the UK.

There is strong potential for affordable, accessible wine brands, retailing at or around US\$10. Old World wine countries, and particularly France, gained an early lead in post-Soviet Russia, but the New World's branded approach could help it build share. Chile is the largest New World exporter to Russia, selling around 600,000 cases, and total New World sales have the potential to reach nearer 10 million cases by 2010.³¹ According to experts, the consumption of wine in the future will increase. Most of the wine exports to Russia are from Spain, Ukraine, Italy and France. Vermouth comes from Italy.³²

6 Asia

As expected, Asia will be a key driver to wine growth in the world, led by China. In Asia, consumption of grape-based wine reached 111.63 million 9-litre cases in 2008, the equivalent of 1.34 billion bottles, an increase of 51.93 percent compared to 2004. Consumption is expected to increase between 2009 and 2013 with more than a further 30 million 9-litre cases being consumed, a forecast increase of more than 25 percent. In 2008, Asian-Pacific countries accounted for 6.6 percent of all the wines drunk in the world.

In 2008, China, including Hong Kong, registered the highest worldwide growth in volumes of wine consumed: 8.720 million more cases of still light wine drunk in one year. This trend recurred in 2009 with growth of 5.29 million 9-litre cases. In 2008, China accounted for 68.9 percent of all still light wines consumed in Asia and 3 percent of the world total. Japan (see later in this report) is the second largest wine-consuming nation in the Asian region with moderate increases in the volumes consumed by Japanese drinkers from 2009: 0.03 percent between 2004 and 2008, then 3.65 percent from 2009 to 2013. India, the 5th largest wine-drinking nation in Asia, posts the largest growth in consumption: 327 percent from 2004 to 2008, then 97 percent between 2009 and 2013.

Although, the consumption of sparkling wines grew sharply between 2004 and 2008 by 55.96 percent, these wines only accounted for 3 percent of the total volumes of wine drunk in Asia in 2008, while they represented 7.3 percent of the total world volume. The Vinexpo/IWSR study forecasts that sparkling wine consumption in Asia will increase by 10.69 percent between 2009 and 2013. Furthermore, the value of wine sales in Asia had

already grown by a substantial 62.97 percent between 2004 and 2008, reaching US\$6.94 billion.

In Asia, one bottle out of four that is consumed is imported (or 27.8 percent of the volumes consumed). However, imported wines account for 59.8 percent of the total value of wines sold there. In 2009, Japan remained the leading wine-importing nation in Asia.

China

Wine is becoming popular among Chinese people. The Chinese market has been gradually expanding, assisted by increasing disposable incomes, publicity about wine's health benefits and a government campaign against grain-based alcoholic drinks. Reduced import tariffs also have made the market more accessible. Red wine currently dominates in China but increasing Westernisation and more wine education offer potential to promote white wines.

A survey China Market & Media Survey (released by SinoMonitor International in February 2010) shows that Chinese wine production registered an annual growth rate of above 20 percent. With the development of wine market, consumers know more about wine. In current China, wine is also a reflection of culture and taste. Wine consumers are regarded as a special group of people so it is important for wine brands to pay attention to the change and characteristics of this group of consumers.³³

Among newly rich groups of China, the volume of wine consumption is second only to beer. Data shows that men are still the major wine consumers but among the newly rich people, major wine consumers are increasingly female, young and between 30-34 years old.

Middle class people and young people under 34 years old have a preference for famous brands and are willing to try new brands. They equate it with distinctive, quality and healthful products. Older consumers are concerned about brands and are sensitive to price. Consumers buy wine more and more in supermarkets and stores and less at markets. Television, the Internet, radio and newspapers are major information sources for wine.

India

India has become the 10th largest growth nation for wine consumption, in value and volume terms for the period 2009 - 2013, according to the Vinexpo/IWSR 2010 study. In 2008, wine consumption in India reached 1.449 million 9-litre cases, equivalent to 17.38 million bottles; an increase of 372 percent compared to 2004. The Vinexpo/IWSR study forecasts an increase of 1.475 million 9-litre cases in Indian wine drinking up to 2013.

The study also outlined the large demand for red wines in the Indian market. In 2009, 71.9 percent of the still light wines drunk in India were red. The study indicated that the consumption of imported wines doubles every five years in the country. In 2008, imported wines accounted for 14.4 percent of the volume of wines drunk by Indians and 29.3 percent of the total sales turnover of all wines in India. Consumption of imported wines, essentially concentrated in the country's major cities, doubled between 2004 and 2008. The sector saw growth of 106.45 percent and reached 208,000 9-litre cases.

The forecasts of the Vinexpo/IWSR study estimate a further growth of 100.44 percent in the consumption of imported wines between 2009 and 2013, reaching more

than 5 million bottles by the end of the period. Red wine is increasingly popular and red wine proportion is set to increase by 112.66 percent by 2013, when red wines will account for more than three quarters of all the wine consumed in the country. Between 2009 and 2013, consumption of white and rosé wines will also grow, though to a lesser degree, by 53.23 percent and 30.77 percent, respectively.

South Korea

Alcohol plays a large part in South Korean society and consumers are increasingly interested in, and better educated about, wine. More and more Koreans are favoring diets that reflect health-consciousness and include Western foods. With that, the popularity of drinking wines with meals is growing. Sparkling wine is still seen as a drink for special occasions only, but this is slowly changing with regard to table wine. New World wines are becoming more popular thanks to their perceived price-to-quality ratio and consumers are very attracted to wine's healthy image and the fact that it has less alcohol than other beverages. A "clean and green" image is valuable.

Although awareness of wine among Korean consumers is growing, this is from a small base and wine currently comprises less than one per cent of total liquor consumption in Korea. Many consumers, distributors, retailers, and even some importers have limited knowledge of wine. French wines typically take 30-40 per cent of the imported wine market because of their strong brand recognition and systematic marketing activities. Australian wine currently ranks fifth, behind France, Chile, Italy and USA but ahead of Spain and Germany.

Despite these challenges, spending on wine

is up and drinking habits are evolving with a focus on the 'healthier' consumption of wines, particularly reds, rather than spirits. However, whiskies still dominate the market, accounting for 85 per cent of alcohol imported into Korea.

Because wine-drinking culture is in its infancy, Koreans are driven by brands or country of origin rather than taste when selecting wines and a belief that imported wines are better quality, especially those from Europe or the USA. Demand for wine has grown with changing dietary habits, an increase in Western-style food outlets and a boom in family restaurants and pizza houses. The number of hypermarkets and discount stores that sell imported wine is also increasing and with more than 20 million Koreans now connected to the Internet, there is great potential for importers to use a range of distribution and promotional avenues to maximise their opportunities.³⁴

Approximately 60 percent of wine consumption occurs in the home, with the other 40 percent taking place in restaurants. Wine sales increase during traditional Korean gift-giving holidays such as Chusok (September), Christmas and Lunar New Year's Day. Wine gift sets are becoming increasingly popular, replacing gift sets of liquors. Currently, red wines are making up 70 percent of the market share, but sparkling and other white wines have room for growth. Consumer prices for wines are quite high. A combination of import duties, taxes, large distribution costs and markups results in high retail wine prices.

Japan

In Japan the developing wine market is dominated by France. Beer is the preferred alcoholic beverage in Japan, and in general alcohol consumption has been in decline for

some years. Nevertheless there is a growing market for wine amongst women in their late 20s and early 30s who increasingly perceive wine as a sophisticated beverage of moderate alcohol content.

Wine consumption was at its peak in 1998 following a spate of publicity regarding the health benefits of red wine. Since that time, wine consumption has dropped. Japan's

wine consumption is low at 3.2 litres per capita and wine does not constitute a large proportion of alcohol consumption, with just a 7.5 percent share. Beer is the preferred alcoholic beverage, and in general alcohol consumption has been in decline for some years. The 30-39 age group (both males and females) consume the largest amount of wine.³⁵



CONCLUSION

This report examined the broad terms the wine consumption trends globally and also looked at the drivers behind this trend. In summary a few points stand out.

The economic downturn is a key driver and influences buying and consumption patterns globally. The downturn has made consumers more aware of value for money and has led to altered behaviour including increased home (off-trade) consumption. Despite the economic woes, there is a consumer segment that was not affected and that still aspires for premiumisation and exclusivity namely the super rich. It is important to segment the wine consumption market accurately as there are many distinctive characteristics in each segment that would call for targeted and tailored product positioning and

marketing. The younger generation Y and female segments are particularly lucrative as future growth areas.

The retailer's challenge is to embrace and service a diverse wine drinking public presented with more choice of produce than ever before. Exceptional service, product ranging, and fair pricing practices will remain at the core of effective retailers. The industry must also pro-actively manage concerns of social responsibility – wellness and the environment.

Wine consumption globally and in general is expected to grow consistently and will face its main competition in the form of beer and to a lesser degree, flavoured alcoholic beverages and ciders.

ENDNOTES

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