CBI
Ministry of Foreign Affairs

CBI Competition:

Wine in Denmark

Introduction

Danish consumers are extremely price sensitive and are used to promotional offers. This makes it hard for new suppliers to enter the market. Wine is supplied by both traditional and New World wine countries, meaning strong and mature wine suppliers with much experience are active in the Danish market. This makes it difficult for new entrants to gain market share.

Market entry

Supermarkets prefer existing suppliers

Supermarkets generally prefer to expand trade with large existing suppliers over the establishment of new trade relationships. Expansion of trade with an existing supplier requires less investment and strengthens existing trade relationships. Setting up a new trade relationship with a new supplier brings forward certain risks for buyers concerning the quality of the wine, the continuity of supply and the credibility of the supplier.

Supermarkets have become even more reluctant to add new wines to their portfolios since the economic crisis. They want to be sure that turnover will be high before buying new wines in large volumes. Therefore, supermarkets tend to introduce new wines in small batches.

In the Danish supermarkets, still red and white wines are sorted by country and consumers commonly choose wines from traditional wine countries, which are known for their wines, instead of New World wine countries. When wines are not placed on shelves by country, consumers pay less attention to origin and tend to choose New World wines more often. Contrary to still wine, rosé and sparkling wine are not sorted per country.

Tips:

- Take steps to lower risks for supermarkets in establishing a new trade relationship: quickly respond to e-mails, always answer questions, and only make promises which you can live up to.
- Use certification of quality management to show that you can supply consistent high quality.
- Make sure that you have technical documentation available on request.
- If you are a new entrant, do not supply supermarkets or retailers directly; rather supply wine to importers. Importers can generally mitigate the risks of directly trading with supermarkets.
- If you can supply rosé or sparkling wine, you can benefit from the fact that these wines are not sorted by country on the Danish retail shelves.

High entry barriers

New entrants from New World countries face high barriers in supplying supermarkets:

- Limited shelf space: Supermarkets often reserve only very little shelf space for New World wines. Consumers in supermarkets tend to choose wines from traditional wine countries, which already have a strong reputation. However, there is a movement towards New World wines, making the impact of this trend less strong in the future.
- High listing fees: Supermarkets often have so many wine suppliers to choose from, that they can charge high fees for the use of shelf space. These fees are relatively high for wines which do not sell rapidly in large numbers.
- Exclusivity: Supermarkets often demand the exclusive right to sell a wine brand in their country. Suppliers cannot sell that wine brand to another retailer.

Tips:

- Small companies with a supply capacity of 10 thousand to 30 thousand bottles annually of each wine can find smaller importers in Denmark who prefer to buy exclusive wines for which they are the only importer and distributor. Exclusivity motivates importers to work with you.
- Hire a wine maker for advice on making the best possible wine with the available raw materials and technology which matches with requirements in the Danish market.

Product competition

Increased excise duty causes a shift away from lighter wine

The recent excise duty increase of 2012 has made the wine market in Denmark tighter than ever, driving some consumer groups, particularly younger consumers, towards other drinks (see [CBI Trends in Denmark] for more information). In January 2012 the excise duty was increased by €0.67 per litre for wine with an AAS level between 6% and 22%. While, in 2013, the excise duty was increased again by 1% per litre of wine with an alcohol content between 6% and 22%. The excise duties as of January 2015 were €155.97 per hectolitre for still wine and €200.98 per hectolitre for sparkling wine. The increase in excise duties has resulted in pressure on suppliers to reduce prices. Retailers aim to maintain stable consumer prices in order to secure sales. They partly transfer to their suppliers the reduction in profit margins as a result of excise duties. Supermarkets in particular have strong bargaining power to enable this transfer of costs. It is expected that supermarkets will continue to put pressure on their suppliers to drive down prices.

Despite tax increases, approximately 46% of all alcoholic purchases in Denmark in 2014 comprised wine (Statistics Denmark 2015). This shows that the interest of Danish consumers on wine remains strong. It is uncertain how Danish excise duties will develop in the future; the government's health concerns might push up excise duties even more in the future. Developing country exporters need to take into account that lighter wines in particular will suffer from this excise duty increase, since young consumers mostly consume fresh and lighter wines.

Young consumer marketing

In order to remain attractive to younger consumers consider marketing your wine as a trendy desirable product. Young consumers look for fun, trendy and desirable drinks, such as popular pre-mixed drinks and alco-pops (i.e. easy-to-drink alcoholic beverages). Use fashionable packaging and offer single-serving packaging which can be positioned next to pre-mixed drinks in supermarkets.

It becomes increasingly difficult to prevent substitution by other wines from competitors. The wide variety of wines already available on the Danish market complicates product distinction and establishing brand awareness. The increase in global sourcing only adds to the diversity of wines in the Danish market.

Tips:

- Develop Unique Selling Points (USPs) to promote your wine as a wine suitable for the young Danish consumer. You can use characteristics about the wine, its origin and the production process as USPs.
- Promote your wine as being exclusive. One option for making your wine appear more exclusive is the creation of a limited or special edition of your wine.

Company competition

Danish rivals remain absent

There is little or no competition from domestic producers in Denmark. Local production only plays a marginal role as the number of commercial wine growers in Denmark is insignificant. Due to Denmark's geographical location, local production is not expected to change in the future; the climate is simply not suitable for proper viniculture.

Competition is diverse

Although wine production in Denmark is small, the market is rather mature and rivalry is strong. While most Danish consumers have a rather traditional taste in wines, the Danish market is quite open to wines from all over the world. Traditional suppliers, such as France, Spain and Italy, are starting to have difficulties in remaining competitive in this fast changing market.

Moreover, it seems as if a shift in demand is happening towards New World wines. The result is a diverse market with suppliers from all over the world. In 2014, wine from New World countries accounted for 25.7% of wine imports by value, a small decrease when compared to a share of 26.1% in 2012.

Tips:

- Focus your competitive strategy on other developing country suppliers, since you need to distinguish yourself from this group of suppliers. One way of doing this is by finding a unique characteristic of your wine or location that is different from all other wine suppliers active on the Danish market.
- The need for effective differentiating marketing and promotion remains relevant for developing country suppliers. The fact that wines from traditional wine countries are experiencing difficulties in the Danish market does not automatically mean New World wines find themselves in a less competitive environment. Especially now, the Danish market offers opportunities for New World wines to enter. Develop a strong marketing strategy based on the uniqueness and exclusiveness of your wine to benefit from this development and gain market share.

Supermarkets use power to consolidate

The buying strategy of the leading supermarkets is to limit the amount of suppliers to only a few. They aim to be the biggest buyers from some of the world's largest suppliers. This enables them to purchase the most price-competitive wines, build close long-term trade relationships and optimise logistics. Supermarkets can also demand exclusivity to distinguish themselves from the competition. If suppliers agree to this, they cannot supply the same product to other retailers.

Only very few suppliers in developing countries are able to meet the requirements of these supermarkets: constant supplies of consistent quality in high volumes.

"COOP's buying strategy is to be a big, or the biggest, buyer, with only a few suppliers. Loyalty is important and this can be developed over time with a supplier if you're big."

Tips:

- If you are a relatively small supplier, target small buyers. Otherwise, you will experience too much pressure from buyers to agree with contract conditions which you may not be able to meet.
- Only target supermarkets if you are ready to become a big long-term supplier. You are ready when you can:
    - Supply full containers on a weekly basis
    - Plan your production and meet logistical requirements for programmed short-term delivery;
    - Hire a product developer who knows the quality characteristics desired by the targeted supermarket.
    - Negotiate long-term contracts in which risks and profit are split equally.
- Describe the taste profile of your wine, preferably based on expert opinions, and match this with suitable occasions or food. Label your bottles accordingly to promote your wine.

Private labels are expected to increase rivalry

Private labels are increasingly gaining share in the European off-trade segment. Big supermarket chains in Denmark, such as Aldi, have started enhancing their food and non-food ranges in their stores. Such private labels have already increased competition in other European countries, with the most prominent example being the UK.

Tips:

- Creation of private labels in Denmark could offer you the opportunity to supply bulk wine for blends to private labels.
- If you wish to supply bulk wine for blends, live up to expectations of quality consistency and volume.
- If you wish to supply bulk wine for blends, keep in mind that supplies of bulk wine for private labels are particularly vulnerable to substitution. Spread your risks by supplying multiple buyers in different countries.
- Shipment of bulk wine is most attractive for suppliers who can:
    - Supply large volumes at regular intervals and deliver them just-in time for bottling facilities to process the wine shortly after receipt
    - Offer very competitive prices for the quality required by the buyer

Development of supporting industries weakens supplier power

In the growing wine industries of New World wine countries, competition between suppliers of input materials (e.g. fertilizers) increases. Particularly in South Africa, Chile and Argentina, wineries can buy their input materials locally at very competitive prices. Whereas in some other (smaller) New World wine countries, such as Bolivia, wineries still need to import some of their supplies from other wine regions.

Tip:

- It may be worthwhile to investigate price levels of input materials regularly to find out whether your current supplier still has the best offer. You can also use this knowledge to put some pressure on your supplier if necessary.

Economies of scale

Small-scale wine producers generally do not enjoy much power in the negotiation process; they can be considered to be price takers. The larger the wine estate, the stronger a company's position in price negotiations with its suppliers.

Tip:

- If you produce wine on a small scale, consider buying supplies together with other wine producers from your area in order to create economies of scale and increase buyer power.

Potential competition from East Asia

Chinese and Indian wine is currently still too expensive (compared to its quality) for the Danish market. This is likely to change in the medium to long term. However, it is unlikely that the Chinese wine producers will be able to export large quantities of wine to Europe, as currently they are net importers since their production is not enough to satisfy domestic demand. In 2014, Chinese wine imports to the European Union accounted for only 0.03% of the total. Indian exporters are also knocking on the doors of the EU. However, in 2014 imports of Indian wine accounted for less than 0.01% of the total to the EU.

Tips:

- Keep a close eye on your Chinese competition through newsletters, trade fairs etc.
- Monitor developments in Chinese wine production by regularly checking the attaché reports at http://gain.fas.usda.gov

CBI Market Intelligence

P.O. Box 93144
2509 AC The Hague
The Netherlands

www.cbi.eu/market-information

marketintel@cbi.eu

This survey was compiled for CBI by ProFound – Advisers In Development
in collaboration with CBI sector expert Theo Jansen and Cees van Casteren MW

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