CBI
Ministry of Foreign Affairs

CBI Competition:

Wine in Germany

Introduction

Discounters are particularly powerful in the German wine market. They easily substitute products to obtain lower prices. This is particularly relevant for bulk wine exporters in developing countries. However, they are slowly moving to more stable trade relationships.

Market entry

Large open market

The large size of the German market attracts many new entrants. Moreover, the market is relatively open to foreign wines. Despite the large domestic production, consumers welcome wines from outside Germany and even outside Europe. This offers good opportunities to suppliers who aim to enter the European market. The south of Germany with its strong wine production and its traditions is an exception to this rule. New entrants will have more difficulty to gain a foothold here.

Tips:

- If you aim to export your wine to Germany, target the North part of the country.
- Small companies with a supply capacity of 10 thousand to 30 thousand bottles annually of each wine can find smaller importers in the EU 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 German market.

Listing fees

Supermarkets in Germany charge high listing fees to suppliers for their shelf space. These fees can give suppliers access to supermarket shelves, which can be a profitable business if you are in the low priced volume segment.

Tip:

- If you aim for supermarkets, but your brand is not strong enough, find a buyer who already supplies supermarkets and partner up to sell your wine under their brand.

Rosé market is most accessible

On their shelves, German retailers often do not sort rosé wine per country, as is usual for red and white wine. New entrants benefit from this shelf navigation, as the known origins can be found next to the new origins, promoting new entrants as a possible option too.

Tip:

- Benefit from the easy entrance on the German supermarket shelves if you are producing rosé wine.

Product Competition

Small threat of substitution by other alcoholic drinks

Germany has a strong wine culture. Therefore, wine suppliers have little to fear from suppliers of other alcoholic drinks. In the period 2007-2012, alcohol consumption decreased by 0.6% annually. In the same period, wine consumption increased by only 0.2% annually on average, while consumption of beer and other spirits decreased by 0.8% and 0.4% annually respectively. In the short-term, wine will remain a fashionable drink.

Currently, no excise duties are placed on still wine but, in the long-term, measures by the government to reduce alcohol consumption can cause a shift to wine with a relatively low alcohol content. In that sense, the increasing popularity of aromatic wine drinks or wine cocktails might be supported by government policies. However, this does not directly offer opportunities to exporters in developing countries, as European importers will blend and bottle these wine-based drinks.

Tips:

- The promotion of wine, as a better alternative to other alcoholic drinks, is not feasible for individual companies. Focus your promotion on unique selling points compared to other wines.
- Produce wine with a low alcohol percentage to anticipate consequences of government policies.

Company competition

Discounters dictate the market

Large discounters, such as Aldi and Lidl have an exceptionally large market share in Germany of 45%. These buyers demand huge amounts of wine, which attracts many suppliers. However, in the past few years, their power has decreased somewhat. In the long-term, more global sourcing is expected to improve the position of buyers again. Germany already imports very large amounts of wine from South Africa, the United States, Chile and Australia. In 2014, countries outside the EU accounted for 19% of the volume of wine imports. In the short term, exporters in developing countries can benefit from the increase in global sourcing. Nonetheless, in the long-term, it will increase competition.

More sustainable trade

In order to secure future business and capitalise on the success of brands, buyers increasingly aim for sustainable business models with more stable supplier relations. In the past, fierce price competition and price loyalty, instead of brand loyalty, caused buyers to switch a lot between suppliers to keep prices low. They kept switching costs low by establishing private labels and using blends to enable substitution without the need to change labels, barcodes, etc. Existing suppliers will benefit from the strengthening of stable trade relationships. In contrast, new entrants will find it more difficult to establish trade.

Tips:

- Aim for long-term contracts and stable trade relationships to prevent your buyer from switching to a new entrant, but also to split risks and profit more equally.
- Make sure that your wine is always available, once buyers need to go elsewhere they do not come back.
- Penetration pricing (i.e. low pricing to enter the market) has limited potential, because buyers want price stability.
- Live up to your promises with your buyers: supply the agreed volume, quality and price. It is better to be realistic in your offer and point out your limitations than to disappoint the buyer. The former approach is the basis for long-term sustainable trade.
- Aim for importers as they also deal with lower volumes and can provide marketing support.
- Without a large budget for promotion, premium priced wines are deemed to remain a niche product.

Strong rivalry in middle to premium segments

Rivalry amongst wine suppliers is particularly high in the middle to premium market segment. Most European wine producers aim to be in these segments. In order to be competitive, suppliers need to show their unique selling points (USP), such as variety, origin or even Geographical Indication, stories about production (e.g. altitude), wine show medals, sustainability, packaging, etc. Due to the importance of fashion trends in the wine market, your USP can attract many new buyers at one moment and lose popularity at another. Private labels are increasingly gaining market share enhancing rivalry in these segments.

Tip:

- Keep a close eye on the fashion trends in the European wine market, in order to realign your products' USPs with the latest trends. Besides wine magazines, you can spot new fashion trends and forecasts at trade fairs, wine tastings and exhibitions.

Less rivalry in low-end segment

In the low-end segment of the German wine market, rivalry is less strong. This segment is still undersupplied. Few suppliers can meet the high requirements of the discounters. Exporters in developing countries who are able to produce large volumes of a consistent quality can profit from this market situation. South Africa has a particularly good reputation in this respect. Exporters in this country are able to supply bulk wine at low margins by saving on branding and packaging.

CBI Market channels and segments for Wine in Germany provides more information on segmentation in the German market and the implications for exporters in developing countries.

Tips:
- If you can supply at low costs, focus on the low-end segment.
- In order to protect the reputation of your country, business support organisations can lobby the government to secure the quality of national exports through a control panel.
- Business support organisations can also lobby the government to establish schemes for Geographical Indications (GIs) and obtain recognition for these GIs by the EU.
- Participate in wine tasting events to gain recognition for your wine.
- If you have an interesting story to tell about your wine production, use it for branding.

Little buyer dependence

Despite more branding by wine producers, they continue to have difficulty in increasing the dependence of their buyers on them. The wide variety of wines available on the German market complicates product distinction and the increase in global sourcing will only add to this. Therefore, exporters in developing countries will have to put more creativity and possibly financial resources into product development and promotion. Moreover, opportunities for innovation by companies in developing countries are limited, as blending and bottling increasingly take place in Europe.

Tips:
- Use as many product and production characteristics (e.g. alcohol content and origin) as possible to create a unique brand.
- Develop your own regional market to gain a reputation, use lessons learned to gain a competitive advantage over other European market entrants and build a brand.

Blending for private labels

Supplies of bulk wine for private labels are particularly vulnerable to substitution. German retailers often blend different wines for their private label. Blending of different wines allows them to switch more easily between suppliers and decreases their dependability on particular sources. The substitution offers opportunities for exporters in developing countries who still need to enter the market. At the same time, it forms a threat to existing suppliers of these bulk wines for private labels.

Tips:
- If you supply bulk wine for blends, live up to expectations of quality and consistency in quality and quantity.
- If you supply bulk wine for blends, spread your risks by supplying buyers in different countries.

Increased global demand

Demand from emerging markets, such as Brazil, Russia, India and China (BRIC) is increasing. This development is improving the position of wine suppliers around the world. Nevertheless, the expected emergence of China as a supplier within 5 years may outweigh the effect of the emergence of BRIC consumer markets.

Potential competition from Asia

Chinese and Indian wine is currently still too expensive (compared to its quality) for the German market. This is likely to change in the medium to long term. However, it is unlikely that 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 sufficient to satisfy domestic demand. In 2013, Chinese and Indian wine imports amounted to 0.012% of total European imports. In addition, the Indian government will first have to settle the GATT dispute with the EU regarding the Indian import and sales measures on imported wine and spirits.

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

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