CBI
Ministry of Foreign Affairs

CBI Competition:

Wine in the Netherlands

Introduction

Due to concentration in the Dutch market, large retail chains have a strong position. Combining low prices with suitable qualities for the target segment is their prime objective, especially in the low and middle price segment. Nevertheless, the growing interest of the consumer in new varieties and unknown wine countries increases the export opportunities for developing country producers.

Market entry

Listing fees remain high

It can be very costly to buy yourself into the Dutch market due to listing fees charged by supermarkets. In addition, most Dutch supermarkets do not want to see "their" brands in other channels.

Tips:

- 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. Importers can also help you spread risks by supplying your wine to multiple market channels under different brands.
- 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.

Suppliers better prepared for market entry

The bargaining position of producers and importers can be further improved by developing the regional market. It can serve as a good stepping stone for entering the European market as producers/exporters usually have better knowledge of these markets, allowing them to improve their quality and services.

Tips:

- You can use your regional market to create export volume as a stepping stone to enter the Dutch market. Product and market trends will differ per region. Therefore, make a product that can work both for the European and your regional markets.
- Hire a wine maker for advice on making the best possible wine with the available raw materials and technology which matches with requirements in European markets.

Product competition

Consumers increasingly prefer wine

The Dutch government reinforced legislation regarding the intake of alcoholic drinks in the last decade. As a result, the overall intake of alcohol has decreased. Nevertheless, in the past decade, Dutch per capita consumption of wine stabilised whereas consumption of other alcoholic drinks, such as beer and distilled liquors showed a decline.

Tax and excise increases impact the wine market

The Dutch government has repeatedly increased taxation and excises on wine. In 2012, wine VAT was increased from 19% to 21%, while January 2013 the excise on wine increased by 18% and in 2014 by an additional 5.75%. The current excise duty on wine is €88.36/hectolitre of wine. These policies resulted to an 8% reduction in Dutch wine sales in the second half of 2013 according to the Association of Dutch Wine Traders.

Tips:

- Low alcohol wines can be an interesting option for Dutch buyers: 1) the excise tariff is lower, 2) consumers drink more as they are less inclined to hold back due to the low alcohol percentage.
- Inform yourself about new developments in Dutch legislation that could threaten the stable growth of Dutch wine consumption.

Aromatic wines are becoming trendy

Innovative wine drinks, such as aromatic wine drinks or wine cocktails are very popular in the countries surrounding the Netherlands. However, according to industry sources, the Dutch market does not yet seem to be ready for these drinks. As fashion trends in wine often hop from one country to the other, it is not unlikely that these trendy wine products will spill over to the Dutch market in the future.

Tips:

- Keep a close eye on innovative wine drinks. It will be unlikely that you will export them, but you might be able to supply its most important ingredient: still bulk wine.
- Exporting innovative wine drinks is very difficult as tastes in Europe can differ and local production costs can be high. Moreover, you need a costly promotional programme to market your product.

Company competition

No competition from domestic producers

In the Netherlands, local production plays a marginal role and is especially focussed on local on-trade. This will not change in the coming years.

More need for unique selling points

Competition amongst suppliers in the Dutch wine market is high, especially in the middle to premium market segment. Suppliers of these segments need to show their exclusivity through for example origin, branding, a Geographical Indication, wine show medals or certificates, such as Fairtrade or organic. In addition, developing country suppliers can differentiate themselves from traditional wine producing countries by emphasising their exotic features.

Tips:

- Map the unique selling points of your wine and actively promote these characteristics.
- Every wine has a unique story. The history of a winery, passion and dedication of people working at the winery and location of a winery are elements of stories about wine. Trade fairs and tasting events provide particularly good opportunities to tell your story. Online webshops also offer a platform for story telling in addition to magazines and wine blogs.
- Cooperate with other wine exporters in your region to develop a Geographical Indication (GI). Champagne is a good example of a GI which adds considerable value to a wine.
- Actively search for export destinations within your region. Contact Business Support Organisations with updated market information about trading opportunities within your region.

Private labels increase rivalry in medium and high segments

Private labels are expected to increasingly gain share in the Dutch off-trade segment. The biggest supermarket chain, Albert Heijn, already has its own private label wines. Between 2004 and 2013, private label sales in the Netherlands increased from below 25% of volumes to more than 50% (IWSR 2015).

Least rivalry in entry level segment

Similar to other European markets, the entry level in the Dutch wine market is undersupplied. Developing country suppliers are able to profit from this development if they are able to produce large volumes of consistent quality at prices that retailers are willing to pay.

The average Dutch consumer likes a wine that is low in tannin, low in acidity, smooth and fruity. Wines with these characteristics can be sold in very large volumes. However, there are many niches for different wines with unique characteristics. These niches are particularly interesting for wineries with small production quantities. For more information on the entry level on the Dutch wine market please read the Market channels and segments for Wine in the Netherlands.

Tips:

- Distinguish yourself from the competition by having fashionable packaging (e.g. special bottle or well-designed label). Consult your packaging supplier to find out whether production of special packaging is feasible or not.
- Unlike other West-European countries, it is possible to sell under the same label to the specialist retailers and the on-trade segment in the Netherlands.

New shelf navigation increases competition from New World

Some of the leading Dutch retailers, such as Albert Heijn and Grape District, present wines by taste profile and matching drinking occasion instead of country of origin. This is increasing competition from the producing countries of the New World as consumers will start focusing less on the country of origin. Moreover, Dutch consumers are in general open to try wines from New World countries.

Tips:

- Gain recognition for your wine from professionals by participating in wine shows, such as Berliner Wein Trophy (Germany), International Wine Challenge (United Kingdom) or Veritas Awards (South Africa). You can also cooperate with your importer to participate in the Dutch 'Proefschrift wijnconcours'. Medals and awards are very influential promotion instruments.
- Describe the taste profile of your wine, preferably based on expert opinions, and match this with suitable occasions or food. Use this information to promote your wine.

Potential competition from East Asia

China now has the world's second largest vineyard area under cultivation, ahead of France and only behind Spain (OIV 2015). Still, China only ranks eighth globally in terms of wine production at 11 million hectolitres. In comparison, France, Italy and Spain all produced more than 40 million hectolitres in 2014 (Forbes 2015).

Currently, nearly all of China's wine is sold domestically as local demand exceeds supply. However, this could change in the next few years as China began rapidly planting about three years ago (Reuters 2015). Vines take four to five years to produce. Therefore, production could spike soon, possibly leading to an increase in exports.

Chinese wine is currently still too expensive (compared to its quality) for the Dutch market. This is likely to change in the medium to long term. 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

Buyer power is strong due to growing price-sensitivity

Within the Dutch market, buyer power remains the driving force of the competitive landscape. The market is characterised by concentration with only a handful of retailers (i.e. mostly large supermarket chains) dominating the off-trade channel. Dutch buyers are very price sensitive: they offer little room for price negotiation. However, buyers are increasingly looking for sustainable business models with stable supplier relations. They aim for long-term contracts where they can get a long-term supply guarantee.

Retailers can still switch

Retailers have a relatively low tendency to switch as switching costs are high. When changing to a new supplier, a retailer needs to change for example labels, barcodes, etc. However, retailers do have their limits to their loyalty and switch if the price of the wine is significantly higher than introducing a new wine.

Tips:

- Live up to your promises with your Dutch 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 think along with you in terms of marketing.
- When bargaining for a better price with retailers, keep in mind that their flexibility is very limited.
- Without a large budget for promotion, premium priced wines are deemed to remain a niche product.

Suppliers distinguish themselves from competitors

Exporters aiming for the middle to premium market can improve their supplier power by showing the exclusivity of their product. Exclusivity can be a variety of qualities, but the most important quality for the Dutch market is storytelling. Promote, for example, the exclusivity of your exotic origin, grape variety, region (Geographical Indication) or production method.

Improving balance between supply and demand

The emergence of the BRIC markets (Brazil, Russia, India, China), where demand for wine is growing, increases supplier power. With more potential markets, the bargaining power of suppliers increase as the EU market will no longer be the only option for exporters of wine. However, in the long run, this balance might shift again as these emerging markets are also becoming important wine producing and exporting countries.

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