



CBI
Ministry of Foreign Affairs

CBI Competition:

Wine in the United Kingdom

Introduction

The UK market continues to attract new entrants, as the market is open to new tastes and experiences. This has also led to a high degree of rivalry, especially in middle and high-end of the market. In the off-trade market, large retail chains are particularly powerful in the UK wine market. Compared to this concentrated group of buyers, the bargaining power of the large amount of suppliers, both from Europe and outside, is weak.

Market entry

Easy entrance

The UK market is an important stepping stone for entry to other European markets. British consumers are open to new tastes and influences. Moreover, retailers in the UK do not make it very difficult for new origins to become visible, as is the case in some other European countries. For example, in Germany, supermarkets charge high listing fees, which suppliers need to pay to obtain shelf space.

Tips:

- Use the UK market as a stepping stone if you wish to penetrate the European market.
- 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.
- If you are a small producer and want to export, start by contacting your wine association for advice.

Off-trade segment is most accessible

On supermarket shelves, retailers often do not sort wine per country. New entrants benefit from this, as most consumers have a tendency to purchase from known origins, prices being equal.

Tip:

- As a new entrant to the market, benefit from the easy entrance on the UK supermarket shelves.

Little buyer dependence

The wide variety of wines available in the UK market complicates product distinction and despite the increased branding by wine producers, buyers' dependence is low. This creates the need to first develop a strong brand in your own regional market before entering the UK market. Your knowledge of regional markets will prove to be a major advantage and the lessons learned will help to gain a competitive edge over other European market entrants. Nevertheless, the small size of regional markets may impede you from reaching the scale required for export to the UK.

Tips:

- Use branding and your reputation to increase your buyer's dependability on you and ensure stable sales to regular buyers.
- 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.
- 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.

Product competition

Small threat of substitution by other alcoholic drinks

While the total value of UK wine sales has grown steadily since 2008, beer sales increased for the first time in a decade in 2014, by 1.3%. In a 2014 poll, six in ten people in the UK chose wine as their 'drink of choice' (Telegraph 2015). At least in the short term, wine will remain a fashionable drink.

The UK government has furthermore introduced measures to reduce alcohol consumption, which may also 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.

Tips:

- 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

Large retailer chains dictate the market

Buyer power remains the driving force of the competitive landscape. Particularly large supermarkets, such as Tesco and Sainsbury, are very strong buyers. The power of buyers is affected by changes in global wine production. In previous years, the power of buyers decreased somewhat due to reduced availability of wine for the low-end segment. This gave buyers fewer options to switch between suppliers. Global wine production in 2013 rose sharply and the position of buyers improved, but lower production in 2014-2015 in some countries has again increased demand for bulk wine and strengthened the position of suppliers (Harpers 2015).

Blending for private labels

Supplies of bulk wine for private labels are particularly vulnerable to substitution. UK retailers often blend different wines for their private label. Blending of different wines allows them to switch 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 consistency and volume.
- If you supply bulk wine for blends, spread your risks by supplying multiple buyers in different countries.
- Even when you supply the supermarket directly keep a bonded stock in UK to guarantee continuous supply.

More sustainable trade

In order to secure future business, buyers increasingly aim for sustainable business models with more stable supplier relations. Existing suppliers will benefit from this trend, as it will strengthen the trade relationship with their buyers. In contrast, new entrants will find it more difficult to establish trade relationships.

Medium switching costs

Retailers have a relatively low tendency to switch as it involves considerable switching costs. 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. Moreover, threatening a supplier to switch to another supplier is often sufficient to make them give in, as relative switching costs for the supplier are higher than switching costs for the supermarket. Suppliers can limit switching costs by strengthening their sales department and spreading sales over different buyers.

Tips:

- Aim for long-term contracts and stable trade relationships to prevent your buyer from switching to a new entrant.
- Aim for long-term agreements in order to split risks and profit more equally.
- Aim for importers as they also deal with lower volumes and can provide marketing support.
- Make sure that your wine is always available. Once buyers need to go elsewhere they do not come back.

Strong rivalry in middle to premium segments

Rivalry amongst wine suppliers is particularly high in the middle to premium market segment as most of the 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 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 loose popularity at another. For example, Croatian and Macedonian wines have gained popularity in the UK. However, it remains to be seen whether demand for these wines will hold.

Private labels increase rivalry in medium and high segments

Private labels are increasingly gaining share in the UK off-trade segment. Private label wines accounted for 33.5% of still wine sales in 2014 and increased by 13% in value in 2013 alone (Harpers 2014). While the top 30 wine brands decreased by 3.6% in volume between 2012 and 2014, private label volumes increased by 4%.

Less rivalry in low-end segment

In the low-end segment of the UK wine market, rivalry is less strong. This segment is still undersupplied. Domestic production is small and focused on local on-trade. Despite global sourcing, foreign supplies also remain insufficient. Exporters in developing countries who are able to produce large volumes of a consistent quality can profit from this market situation.

CBI [Channels and segments for wine in the United Kingdom](#) provides more information on segmentation.

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 with the government to secure the quality of national exports through a control panel.
- Business Support Organisations can also lobby with the government to establish schemes for Geographical Indications.
- 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.

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 and Indian 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.

Tip:

- Keep a close eye on your Chinese competition through newsletters, trade fairs etc.

Emergence of Chinese suppliers might influence supplier power

Increased demand from Brazil, Russia, India and China (BRIC) improves the position of wine suppliers around the world. It is a simple economic concept: more demand in combination with stable supplies gives suppliers more power in relation to buyers. Until now, the emergence of BRIC markets has had a particularly positive effect on the power of bulk wine suppliers for the low-end segments. Nevertheless, the expected emergence of China as a supplier may outweigh the effect of the emergence of BRIC consumer markets.

Tips:

- Apply an export diversification strategy by expanding your exports to the BRIC countries.
- 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

Disclaimer CBI market information tools: <http://www.cbi.eu/disclaimer>

January 2016