



CBI
Ministry of Foreign Affairs

CBI Market channels and segments:

Wine in the United Kingdom

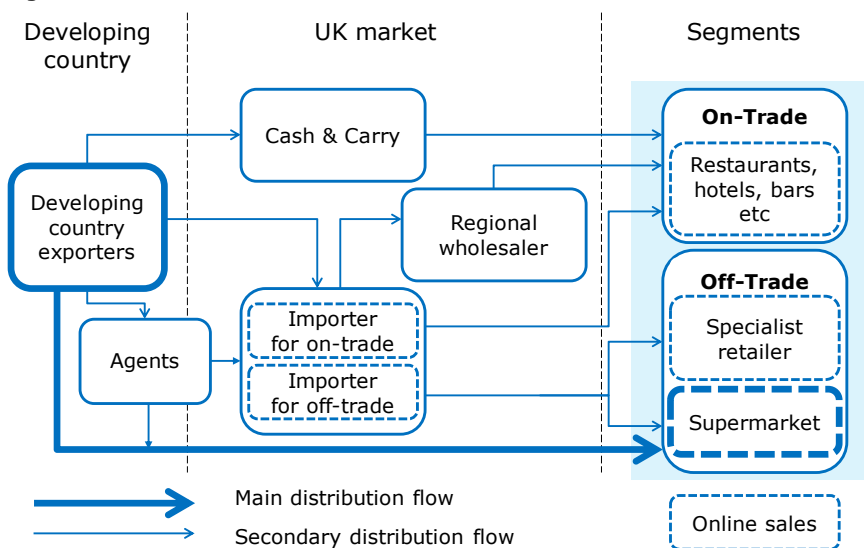
Introduction

Wine trade in the United Kingdom (UK) is dominated by supermarkets, which increasingly sell private labels and import bulk wine from developing countries to save costs. Reaching this channel can best be done through an importer, mitigating your risks of dealing directly with supermarkets. At the same time, opportunities can increasingly be found for low-volume suppliers, at the emerging independent specialists.

Trade channels

The trade channels for wine in the UK are presented in Figure 1. A further explanation of the channels can be found under Annex 1.

Figure 1: Trade channels for wine in the UK



Source: ProFound, 2015

Buyer concentration makes long-term relationship important

The UK market has a small number of large wine buyers. The off-trade (around 10 supermarket chains and speciality shops) dominates wine sales. Supermarkets have become very competitive in the field of wine in order to attract more consumers. Some of them focus on the premium segment, such as [Waitrose](#), while others focus on low-priced bulk wines. All of them run frequent promotions which bring down the prices of wines. The big players have also established their own private labels, which have grown in popularity and are regarded as labels of quality. This dominant position of supermarkets is expected to strengthen further in the coming years.

Tips:

- Be consistent and trustworthy in your supply quality and quantity. Make sure your wine is always available; once buyers need to go elsewhere they do not come back.
- Engage in a long-term partnership with a UK importer or bottler, where you develop a buyer's own brand, in order to split risks and profit more equally.

Independents offer opportunities for small-volume suppliers

Independent wine merchants, as opposed to larger specialist retail chains, are emerging in the UK wine market. They can differentiate themselves more, thereby addressing the consumers' growing interest in wine. They are finding new customer bases, are building a more attractive assortment compared to supermarkets and have an innovative marketing and client approach. For example, they organise in-store wine tastings and winemaker events. The number of independent retailers in the UK has increased by 50% since 2007 to approximately 750 stores, excluding large retail chains (Decanter 2014). Specialist retail chains, as opposed to independents, are actually losing market share. The near bankruptcy of retail chain [Oddbins](#) is illustrative of this development. Their shops decreased in number from 278 in the late 1980s to 37 in 2012.

Tips:

- Develop a unique selling point, like unusual origins, varieties, production/region stories, sustainability/organic or Fairtrade certification.
- Branding is very important in the premium segment in the UK.
- Independent wine merchants can best be reached through an importer specialised in the off-trade.

Economic recovery: switching back to on-trade consumption

The economic crisis led to a significant decline in wine consumption in the UK, and a switch to the off-trade segment. Consuming wine at home saves costs. As the economy and consumer purchasing power grows again, the on-trade sector is recovering. Sales in restaurants, hotels and bars will increase. Exporters in developing countries can respond to this trend by focusing their distribution strategy on importers specialised in supplying on-trade channels.

Tip:

- In times of economic adversity, more opportunities can be found in the off-trade sector. In contrast, in times of economic prosperity, opportunities in the on-trade increase.

Online sales

Online sales in the off-trade account for 11% of the market in the UK, ahead of the average for European countries (The Drinks Business 2015). In general, retailers with physical stores lead the development of online sales. Consumers need to know the retailer before they will rely on the information provided in the webshop. Nonetheless, many small premium wine importers without physical stores offer their wines through a webshop too. Premium wines sell well online as consumers are willing to pay more for a less common wine which they cannot buy at the supermarket. Read more on online sales in the [CBI Product Factsheet: Online sales of wine in Europe](#).

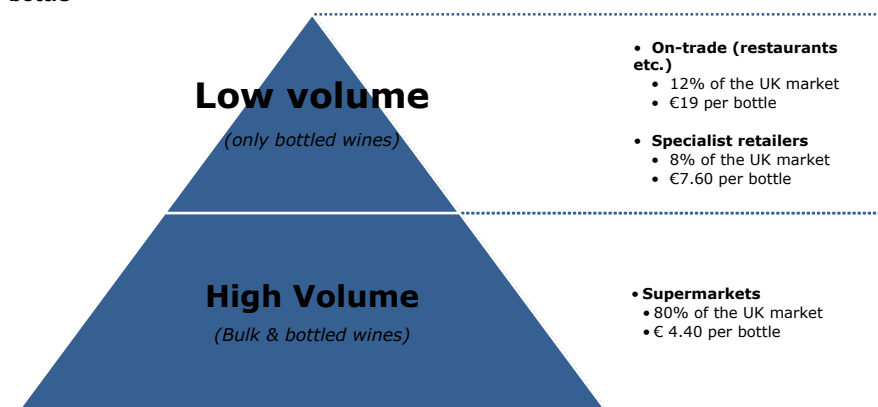
Tips:

- If you supply small volumes of premium wine, find an importer with a webshop which offers wines from original locations.
- Webshops are particularly interesting retail channels for premium wines from developing countries, as they offer space to provide product information, such as a story about the history of the winery.

Segmentation of wine

The segmentation of the UK wine market is presented in figure 2. A further explanation of the figure can be found under Annex 2.

Figure 2 Market segments for wine in the UK, including indication of share in sales per segment and average retail price per bottle



Source: ProFound 2015

Growing imports of bulk wine offer opportunities for high-volume suppliers

The UK increasingly imports bulk wine. The benefits of importing in bulk are many, but require a producer to be able to export large volumes of wine because a wine flexi-tank holds the equivalent of 32,000 bottles. This method reduces transport costs, delays the start of a wine's shelf-life, and reduces the risk of damage to the bottles. The increased sales of private-label wines also stimulates bulk wine imports. However, the threat of being substituted is significant. It is therefore recommended to have a diversified client portfolio.

When supplying bulk wine you can target a supermarket, which you can target directly or via an importer, although retailers often use an importer in this case. The retailer or importer then bottles the wine in the UK. Supplying bulk wine directly to supermarkets is difficult, making an importer a more suitable channel. Listing fees and necessary promotions are financially problematic, making it difficult for a developing country exporter to successfully target this channel. Working with supermarkets therefore requires good price calculations and involves high risks, as the sales quantities are not guaranteed.

Tips:

- When supplying bulk wine, you can only target supermarkets. The latter require large volumes against a relatively low price.
- Importers can play a role in protecting producers from the high risks involved when trading with one big buyer, by spreading sales and to help with their understanding of supermarket requirements.

Continuity in supply is of crucial importance to the bulk buyers.

Strong middle segment

In contrast to many other European markets, the middle segment in the UK is strong. In the past decade, especially in the period of affluence before the economic crisis, the average quality of wines on the UK market has improved considerably. Only consumers that are sensitive to price points still buy simple table wine. Many other consumers do not accept the quality of wines in this low-end segment anymore. Instead, they purchase wines in the medium to sub-premium segment. This segment, consisting primarily of branded wines, is actually growing.

Particularly empty nesters, whose children have grown up and left the house, and people who have retired are good target groups for (sub-) premium wine.

Tip:

- If the quality of your wine is considered to be moderate, improve the quality before trying to enter the British market or focus on supplying bulk wine.

Read the [CBI Product Factsheet: Premium wine in the United Kingdom](#) for more information on the respective market segment.

Differentiation in private labels

Retailers increasingly carry different private labels. As the share of private labels in total wine sales increases, from 26% in 2010 to 33% in 2012 (Wine Business International, 2013), the need for such differentiation also increases. In 2013, private labels accounted for 35.5% of still wine sales and 45% of sparkling wine sales in the UK (Harpers 2014). Commonly, private labels refer to the name of the retailer, such as 'Tesco South African White Wine'. Retailers mostly position these private label wines, which are often made of relatively cheap bulk wines, in the low-end market segment. In addition to these cheap private label wines, retailers are also developing premium private label wines, such as 'Tesco finest' and private labels which do not carry the name of the retailer on the front. In the latter case, retailers develop a brand which cannot be recognised by consumers as a brand (i.e. private label) of the retailer. Only the label on the back of the bottle includes a reference to the retailer, as the owner of the brand.

Retailers will increasingly take control of the branding of wines, as it offers them several advantages. First and foremost, it gives them greater control over their supply chains, because they can switch between suppliers if needed. As long as the flavour profile of the total wine blend remains similar, they can change individual wines in their blend. Secondly, retailers can add value by branding and have all the resources they need to build strong brands.

Tips:

- Supplying wine for private labels is particularly interesting for exporters whose activities focus on viticulture and wine-making. The supply of wine for private labels offers an opportunity to direct all resources towards the improvement of production, whether in terms of quality or quantity.
- Supplying wine for private labels is only interesting for relatively large exporters, as retailers with private labels require large volumes, especially in the low-end market segment.
- Mix private label wine supplies with branded wine supplies to remain an interesting partner for retailers, while also adding value through your own brand.

Comparing segments of promising export markets

Match your wine with the most suitable export market. Table 1 provides some insight into which product options are appreciated in each of the selected promising export markets.

For more detailed information on specific segments, please read the [CBI PFS for Organic Wine in Europe](#), [CBI Product Factsheet: Bulk wine in Europe](#) or [CBI Product Factsheet: Online wine sales in Europe](#).

Table 1 Matching your product with a promising wine market in the EU/EFTA

		Organic	Fairtrade	ISO quality	ISO social	Screw cap	Bag-in-box	Bulk wine	Online sales
Germany	High volume segment	+++	-	++	+	++	+	+++	+
	Low volume segment	++	++	+++	++	+	--	-	+++
United Kingdom	High volume segment	++	+	++	+	+++	++	++	+
	Low volume segment	++	+++	+++	+++	++	--	---	+++
The Netherlands	High volume segment	++	+	++	+	+++	--	+++	+
	Low volume segment	+	+	+++	+++	+	--	---	+++
Poland	High volume segment	---	---	++	--	+	+	++	-
	Low volume segment	-	-	++	-	-	--	---	+
Denmark	High volume segment	+++	+	++	+	+++	++	+++	+
	Low volume segment	++	++	+++	++	++	--	--	+++
Belgium	High volume segment	+	+	++	+	++	+	+++	+
	Low volume segment	++	+	+++	+	+	--	-	+++
Czech Republic	High volume segment	-	-	++	-	-	-	++	-
	Low volume segment	+	+	++	-	-	-	-	++
Austria	High volume segment	+++	-	++	+	++	+	++	-

	Low volume segment	++	++	+++	+	+	--	-	++
--	--------------------	----	----	-----	---	---	----	---	----



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

Annex 1: Explanation of trade channels in Figure 1

Cash and carries are a type of wholesaler that supplies the on-trade sector. They sell wines from their warehouse where customers pay on the spot (i.e. cash) and carry the goods away themselves. Developing country exporters which produce (smaller volumes of) higher quality wine, or fairly unknown/speciality types of wine can target the on-trade sector and thereby choose for a cash & carry to reach this segment.

Agents are independent companies who negotiate on behalf of their clients and act as intermediaries between buyer and seller. Agents do not take ownership of the products, nor keep stock. The commission of a sales agent varies from 3-5% for large volume supplies to 10% for smaller quantities. Agents are still active in the UK market, but their role is diminishing.

The traditional role of agents to source the best quality wines, manage logistics and help with the management of the product itself has shifted over the years. Currently, only the agents who are worth their margin and can justify themselves to retailers, succeed. Agents are still necessary because large off-trade channels, such as supermarkets, do not always have enough staff for sourcing activities. The agent's role is to connect the retailer to new producers. Agents in the UK usually make strategic alliances with selected producers, in order to form shorter value and supply chains. Agencies often opt to become brand owners or co-owners of vineyards; this simplifies the value chain, while making the product more credible.

Importers: Developing country exporters which produce smaller volumes of wine, higher quality wine, or fairly unknown types of wine are advised to use an importer/distributor to enter the UK wine market. Importers can advise exporters on many issues, including legal and quality requirements, market trends and packaging.

Importers buy goods, of which they then take ownership and distribute to retailers, the on-trade sector, or re-export them to other countries. Importers are either specialised in selling to the on-trade sector, or the off-trade sector. Retailers often use an importer for less known wines, since importers then take care of the quality control. Importers generally add a mark-up to cover commissions, credit risk, after-sales service and the cost of carrying a local inventory to meet small orders. Their margin ranges from 15-25% of the selling price.

Regional wholesaler: A regional wholesaler serves as an intermediary between an importer and the on-trade sector. Developing country exporters, therefore, do not get involved with this channel directly. Although regional wholesalers remain an important channel in the UK, their role is declining.

Supermarkets are the dominant sales channel for wine in the UK, and this dominance is expected to strengthen further in the coming years. Supermarkets are a suitable channel for high-volume exporters, either bottled or in bulk. They import per container, so you need to be able to fill at least an entire container. The focus of supermarkets differs considerably in the UK. Some focus on quality wines and a reputable assortment while other focus on low-priced bulk wines. Their margin on the selling price is about 30%.

High listing fees can be problematic, making it difficult for a developing country exporter to successfully target this channel. Working with supermarkets therefore requires good price calculations and involves high risks, as the sales quantities are not guaranteed.

Specialist retailers: Specialist shops are small, look for higher quality wines, and usually buy their wines from an importer, specialised in the off-trade. This channel, therefore, can only be reached indirectly by developing country exporters. Their margin on the selling price is 30% or higher.

Different developments can be distinguished in the UK. The larger specialist chains are witnessing strong decline in their wine sales. Several chains have gone bankrupt, while others were forced to concentrate on the most profitable areas only (big cities, especially London). Independents, on the other hand, are an increasingly vibrant channel, and are expected to grow further in the coming years. There are approximately 750 independent specialised wine retailers in the UK.

On-trade: The on-trade sector consists of many small players, and therefore usually does not import directly. If you target the on-trade sector, you can supply an importer or wholesaler, which redirects your wine to the restaurants and other players in the UK market.

An importer with a high quality image can provide support in selling your wine to the on-trade, by making use of his image. Restaurants mostly look for wines with a reputable image and of a good quality. Sales by the on-trade sector are expected to remain stable in the coming years.

Online sales: Online sales are well developed in the UK, already accounting for 11% of total wine sales in the country, and they are expected to increase further in the coming years. In addition to the leading supermarkets and specialist shops,

which often sell wine online, there are a number of online-only wine stores and wine clubs which are growing in popularity. Some supply to restaurants and stores in addition to customers, while most are oriented towards delivering wine directly to the consumer.

Annex 2: Explanation of market segments in Figure 2

High-volume:

High-volume trade plays an important role in the UK. It usually concerns lower quality wines suitable for the low-end market addressed by supermarkets. Competition on price is very high in this segment. High-volume wines are imported per container.

Low-volume:

Low-volume trade concerns bottled wine only, and usually involves speciality wines, of a high quality or with another unique selling point. Targeting the low-volume segment, therefore, requires at least some level of authenticity. Note that branding is important in the premium segment in the UK.

Bulk:

Bulk wine imports are increasing. You need to be able to export a large volume when supplying bulk wine; a thousand hectolitres is usually the minimum required quantity (20-25 thousand litres per shipment).

The private label market could be an opportunity for developing country producers, although it is also a risk, as buyers can more easily switch to other producers to make up their blends. As such, it is mostly interesting for developing country producers without a brand.

Bottled:

Exporting bottled wine is most suitable for smaller exporters and for producers of branded wines. Transportation is more expensive in this case, but value addition for developing countries is higher as well since bottling takes place in the producing country.

Supermarkets:

Supermarkets are the leading sales channel in the UK and a suitable channel for high-volume exporters. Supermarkets import per container and highly focus on price. However, listing fees are problematic, making it difficult for a developing country exporter to successfully target this channel.

Specialist retailers:

Specialist shops are small, look for higher quality wines, and usually buy their wines from an importer, specialised in the off-trade. This channel, therefore, can only be reached indirectly by developing country exporters.

On-trade:

The on-trade sector consists of many small players, and therefore usually does not import directly. If you target the on-trade sector, you can supply an importer or wholesaler, which redirects your wine to the restaurants and other players in the UK market. Restaurants mostly look for wines with a reputable image and of a good quality.

Online sales:

Compared to other Western wine markets, online sales play a large role in the UK. All sales channels engage in online selling as well as marketing. E-commerce is expected to become even more important in the future.