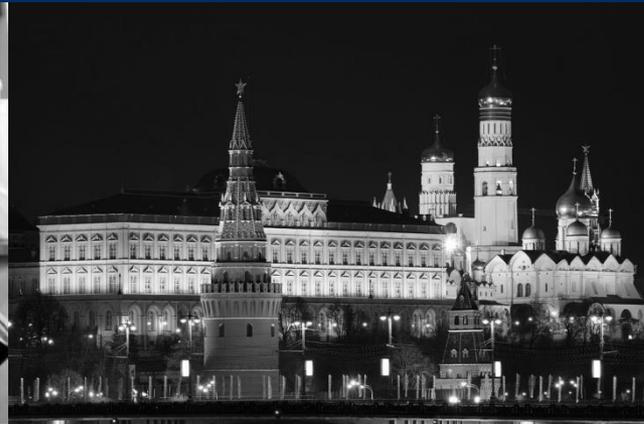




DOING BUSINESS in Russia



WINE INTELLIGENCE REPORT 2013



REPORT PRICE: GBP 1,000 or 2 Report Credits

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Introduction

Trade braces for the next shift of the goalposts



The good news is that the Russian wine market is recovering. There's no return – yet – to the growth seen pre-2008, but the research for this year's "Doing Business in Russia" report suggests a more upbeat market, and a degree of cautious optimism from importers and distributors.

However, any glass-half-full sentiment among the Russian wine trade is quickly tempered by fears over constantly morphing government regulation, combined with a stifling bureaucracy and the ever-present spectre of corruption. "We may wake up tomorrow morning, and the law base will be completely changed," grumbles an influential importer.

Wine importers doing business in Russia are growing used to jumping through multiple bureaucratic hoops which can change their form at any given time. While details of current import regulations are carefully laid out within this report, Wine Intelligence recommends that these are cross-checked with local experts at regular intervals.





The new legislation of the hour is a recently introduced alcohol advertising ban. From August 2012, alcohol advertising was prohibited on the TV, radio, the Internet, public transport and all public spaces except alcohol retailers. The ban has since been extended to include all print media from January 1st 2013. Wine Intelligence discussed this at length with trade experts who, while issuing the caveat that we must wait to see how the chips fall to truly assess the damage, forecast that the new legislation could present a challenge for new importers with little brand recognition while offering an opportunity for established players who will then experience less competition. One trade interviewee explained: “The imported wine business is based on a good story. Without a story no one will know about the wine. Hence, no one will buy it.”

There is also concern that continued strict regulation of the legitimate alcohol industry in Russia may lead to a proliferation in fake alcohol on the black market. However, experts believe the impact will prove to be limited as Russia’s existing imported wine drinkers have already learnt how to source wine information through alternative means due to an existing lack of in-country information. Further, point of sale advertisement is still permitted and the trade predicts that this will be a more important function of promotional activities with an increase in in-store tastings and sommelier-style advice from sales managers.

Introduction (cont.)

Trade braces for the next shift of the goalposts



The imported wine market in Russia must also compete with domestic wines, but there's more positive news there as imported wines show a 3% increase year-on-year since 2007, now holding 43% of the total market share.

In international terms, Russia may not be the most dynamic of the "BRICs", but it still matters. The Russian wine market remains in 9th position in the global stakes and despite the downturn caused by the economic crisis the compound annual growth rate of consumption of still wine increased by 4.8% during 2010-2011.



There are 5.7 million imported wine drinkers in Moscow and St. Petersburg alone and those in the trade are positive that there will be growth beyond these hubs. The government also says it's onside with encouraging wine consumption over vodka in attempts to tackle high alcohol consumption. Of course, vodka and beer (only recently classified as an alcoholic beverage) still dominate in Russia but the landscape looks set to change with promotion of wine as a cultural drink.

As for the wine drinkers themselves, they remain a mostly conservative bunch with 48% preferring to stick to what they know. Red wines from Old World countries dominate, with Cabernet Sauvignon and Merlot as the favourite varieties. In the white wine category, Chardonnay and Muscat are the leaders.

Introduction (cont.)

Trade braces for the next shift of the goalposts



Traditional wine cues, country and region of origin, remain the main choice cues for Russian consumers, who then look to the back label for further information. While France remains the top country of choice with 91% of Russian imported wine drinkers aware of wines from France, Italy is also popular with 81% aware. Those in the trade highlighted a current Italian trend in Russia's cities where everything Italian – lifestyle, food, wine - has become stylish and fashionable.

On the more adventurous side, Chilean wine is the most popular of the New World wines with 66% aware of Chilean wine and 38% having bought it in the past 6 months. The trade put the growing popularity of Chilean wine mostly down to more affordable pricing, a high regard for its quality and easily recognisable branding and packaging. Packaging has so far shown little innovation beyond the classic heavy glass bottle with a natural cork, although small format bottles appear to be on-trend.



Introduction (cont.)

Trade braces for the next shift of the goalposts



A new type of consumer shows signs of emerging; a group who are part of the younger generation. Wine Intelligence Trade Interviews suggest that this is due to increased wine education and overseas travel. This younger generational drinker is more experimental within the wine category, trying new styles of wine and showing interest in food and wine pairing. It is very early days but they may be the ones to watch over the coming years to see if they can develop into an established consumer category.

Whether the emergence of a new type of consumer will be possible will depend on the Russian government's interference with the alcohol industry and how new and existing wine importers fair. Today's rumour is that the Russian government may opt for a Nordic-style monopoly in its endeavour to control alcohol consumption. Whatever happens over the next 5-10 years, we can be confident that the market will grow; it will look different when we look back and to succeed, importers need to know the market and be prepared to re-invent themselves everyday.

Richard Halstead
Chief Operating Officer
January 2013



Research methodology: Sampling and quotas used for Vinitrac® Russia



- Vinitrac® Russia
- Data for this study was collected in November 2012
- Data was gathered via Wine Intelligence's Vinitrac® online survey of more than 700 Russian imported wine drinkers, meeting the following requirements:
 - Adult drinking age
 - Permanent resident of the country – Must currently live in Moscow or St. Petersburg
 - Drinks imported wine
- Invalid respondents (those who speed through the survey or give inconsistent answers to selected questions) have been removed before analysis
- The survey was quota-based and post weighted to be representative of Russian imported wine drinkers in terms of age, gender and income



We comply with both MRS and ESOMAR codes and guidelines for market research practice



Research methodology: Trade Interviews & secondary research



Trade Interviews

- Trade Interviews were conducted with five wine industry professionals (3 importers and 2 wine journalists) in Russia in November 2012

Secondary Research

- Secondary research and Wine Intelligence industry insight have also informed the content of the final report
- Secondary sources such as IWSR data have been used



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