

Opportunities for sparkling wine in emerging markets

Progress is being made in emerging markets, but perhaps not quite at the speed we were hoping for

The challenges facing sparkling wine in emerging markets are very different to those we have seen in the more established markets. The traditional approach for launching luxury products, such as Champagne, was to flood the market with marketing, invest in distribution and then fight for dominance.

However, in many emerging markets, this approach is so resource intensive and risky as to render it untenable as a strategy. Take China for example, with a population of 1.34 billion, and the barriers to entry so high, it's clear that the approach needs to be more targeted and refined.

Another major difference is that, in emerging markets, most consumers still don't naturally associate celebrations with sparkling wine as they do in so many established markets. They may have seen Westerners popping celebratory Champagne corks in films or on TV, but it's not something that's ingrained in their own culture. If sparkling wine is to be relevant to their lifestyles, marketers have to give them reasons.

The internet is now the dominant force in many emerging markets. Traditional media such as newspapers and TV are widely accessible to an educated and more affluent population. However, in many cases this mainstream media remains state controlled, and whilst its ubiquity has some impact, it currently does not have the high levels of trust and affinity that media generally enjoys in developed economies. In this context, user-generated content from social media and the internet in emerging markets enjoys far more respect and affinity, primarily because it is perceived as transparent and less biased.

So are the emerging markets the next big thing for the sparkling wine business, and a refuge from the economic uncertainty that is gripping many of our established markets?

Wine Intelligence believes that change is certainly afoot in these markets – but perhaps not quite at the speed producers and marketers were hoping for.

If the pace of progress is to increase, three key messages should be borne in mind:

- Stereotype the emerging markets at your peril. Each one has its own characteristics and peculiarities, and some very different approaches are required.
- Consumers in emerging markets are constantly evolving. A focus on what has been described as Consumer 2.0 is essential for long-term success.
- Online and social media have leap-frogged traditional marketing approaches.

Stereotype the emerging markets at your peril

The following table demonstrates how we define the emerging markets in a global context.

Traditional Established	Mature Established	High growth established	Emerging	New Emerging
Wine producing countries with high residual per capita consumption, but stable or declining	Markets with strong historical growth which is tailing off	Markets where wine is becoming a mainstream product and is experiencing above-trend growth	Markets where wine is experiencing growth from a relatively low base	Markets where wine is still a relatively new and unknown beverage
Argentina Croatia France Georgia Germany Italy Portugal Spain	Belgium Denmark Ireland Japan Netherlands Switzerland UK	Australia Canada Finland New Zealand Norway Sweden USA	Angola Brazil China Hong Kong Mexico Poland Russia Singapore South Africa South Korea	India Malaysia Nigeria Taiwan Thailand UAE

Table 1 - Wine Intelligence - Wine market evaluation model - March 2011

Typically the characteristics of the emerging markets are:

- Generally significant growth, but from a low base in terms of market volume and value;
- low per-capita consumption rates for wine;
- a narrow range of available wines, although there is a choice of countries of origin and styles;
- the market is dominated by domestic wine or spirits.

But when we take a look at the countries in more detail, it becomes clear that beyond this broad-brush classification, the differences between them are considerable.

In the rest of this section, we have set out the key characteristics of the emerging markets with the highest potential for sparkling wine. Specifically:

- Russia - new opportunities expected as they become members of the World Trade Organisation
- Brazil - plenty of opportunity for imported sparkling opportunities, however, locally produced sparkling dominates with a lower retail price
- China - still wine dominates, though the trend for giving wine as a gift offers real potential
- South Korea - the younger wine consumer and EU free trade agreements will drive future growth

Russia - new opportunities expected as they become members of the World Trade Organisations

Russia has a long a history with sparkling wine, dating back to the time of the Tsars, making the country a key export market for many Champagne houses.

Russia has now joined the World Trade Organisation (December 2011). Its membership means that import tariffs will have to come down. For wine, they are expected to fall from 20 per cent to 12.5 per cent within four years. Despite this change imported wine still suffers from heavy-regulation that may hinder growth for imported wine in the short to medium term.

In line with the government's long-term strategy of persuading Russians to moderate their prodigious vodka intake, and to switch to less alcoholic products like wine, it is also expected that excise duty on vodka could rise by 30 per cent in 2012 alone. Wine could gradually become more popular and harder spirits may decline.

However, this does not mean that Russians will automatically switch to expensive imported wines. After a five-year embargo, some Moldovan and Georgian products are being allowed to return to the Russian market, where they were once enthusiastically consumed.¹

In addition, the quality of domestically produced wines is slowly improving. In 2011, Russian wine producers agreed to stop calling their sparkling wines Champagne, and to work towards creating geographical indications or appellations. Other signs of progress include the first Russian gold medal at Mundus Vini, along with increasing acclaim in other competitions. The Russian wine industry also held its first stand at the London International Wine Fair 2011, reflecting a growing confidence among producers.

Brazil - plenty of opportunity for imported sparkling opportunities, however, locally produced sparkling dominates with a lower retail price

Over the past five years, Brazil's sparkling wine category has been the fastest growing area of the wine market, achieving 7.4 per cent CAGR between 2006 and 2010. This growth has been driven principally by domestic sparkling wines (also up 7 per cent CAGR, 2006-2010)².

Statistics from IBRAVIN, the generic body for the Brazilian domestic wine industry, reveal that sales of Brazilian sparkling wines have doubled from 4.8 million litres in 2004 to 8.7 million litres in 2009³.

Brazilian sparkling wines account for 78% of the market and are perceived to be good value for money; competing strongly in the sub R\$50 price bracket against imports from South America, Italy, France, Spain and Portugal. This again runs contrary to the market for Brazilian still wines, which struggle to compete against Chilean and Argentinean wines at everyday price points.

¹ Source: <http://www.winereport.ru/2011/12/political-changes-not-wto-to-influence-the-wine-market/>

² Source IWSR: Copyright 2011

³ Source: *Comercialização de Espumantes Finos, Empresas do Rio Grande do Sul, 2004-09.*

But there has also been a large increase in the consumption of Cava, Chilean sparkling wines, and non-Champagne French sparkling wines, albeit all from a smaller base. Consumption of Champagne has increased slightly, but it still remains a niche sector by comparison to the volumes of domestic sparkling wines. It's restricted by inflated prices: the price of a bottle of Moët NV, for instance, is roughly twice that of the most expensive domestic sparkling wine.

China - still wine dominates though the trend for giving wine as a gift offers real potential

While most wine drinking populations around the world are ageing and getting poorer in real terms, China is a nation where wealth is being created at an unprecedented rate among a burgeoning, urbanising, increasingly consumer-centric population.

Still wine is the dominant force in the Chinese market, and sparkling remains a long way behind in terms of volume and value.

Despite this, there is a surge of interest in sparkling wine, with imported products achieving CAGR of 33.1 per cent in the 2006-10 period⁴. Wines from France lead the market, but Italian sparkling wines are catching up fast and are achieving double the volume growth rates of their French rivals. Australian, German and Spanish sparkling wines are also increasing in popularity.

Giving wine as a gift is one of the key reasons for purchasing wine in China, and the prestige associated with sparkling wine offers great potential.

South Korea - the younger wine consumer and EU free trade agreements will drive future growth

South Korea has already enthusiastically embraced wine culture and has a young wine consuming population with a thirst for more knowledge. Imported wine may be expensive, but it is also regarded as a sociable, fashionable and even healthy drink.

The retail market for wine is about 3 million cases annually, which equates to just 0.6 litres per head of population – lower than in China. But in common with advancing Asian economies, younger people – particularly women in their 20s and 30s – are using wine as a way of demonstrating their new-found economic power and cultural sophistication.

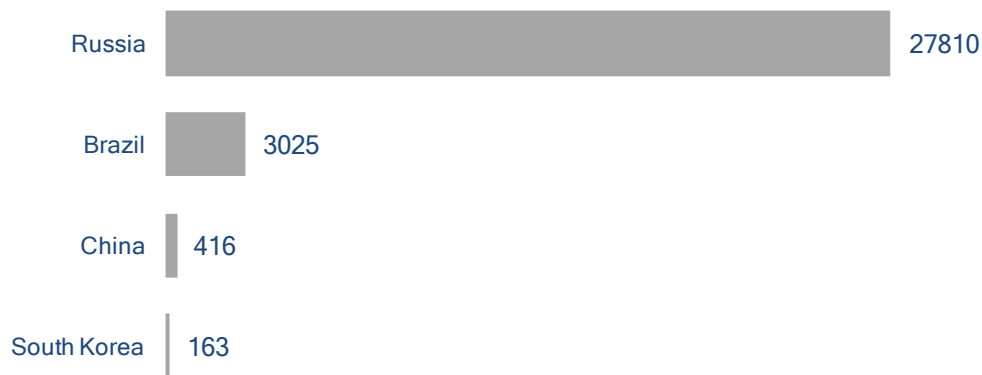
Imported sparkling wines experienced CAGR of 37.2 per cent between 2006 and 2010. Italian wines dominate the South Korean sparkling market, a situation which is unlikely to change any time soon: sales are nearly double those of their nearest rivals, the French, and growing more than seven times as fast⁴.

The boom-and-bust economic cycle of the past 15 years – which dented demand for luxury goods like imported wine – could be stabilising as South Korea cements its global position as an industrial and technology powerhouse. The recently ratified free trade agreement with the EU will reduce import duties on wines and will favour the trade and consumers' choice.

⁴ Source: IWSR copyright 2011

Consumption of sparkling wine

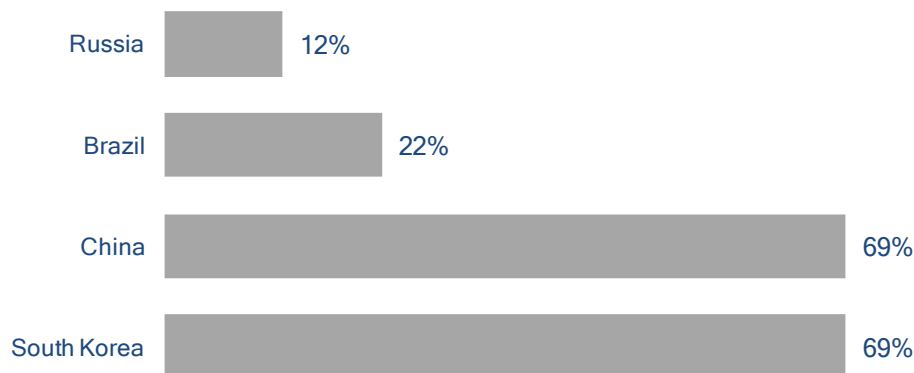
1000s of 9 litre cases



Source: IWSR Copyright 2011

Proportion of sparkling wine that is imported

% of sparkling wine consumption that is imported



Source: IWSR Copyright 2011

New types of consumers are evolving and we predict significant growth over the next 10 to 15 years

When we talk about established wine markets like the USA and the UK, it's easy to forget that they did not reach this level of maturity overnight. It's taken several decades for British consumers to develop a taste for wine, and despite all the progress the market is still largely driven by discounting. The United States, meanwhile, may be a major wine producer in its own right, but much of the country has had a difficult relationship with alcohol for the best part of a century. Only very recently has wine gained widespread acceptance, and even now, nine decades after the repeal of Prohibition, per capita consumption of wine in the USA remains low by international standards.

Will the emerging markets for wine take so long to reach similar levels of maturity? It's a question that cannot be answered with absolute certainty, but there are reasons to believe that the pace of consumer acceptance may be quicker.

Let's take the USA as our benchmark. Here, marketing analysts have described a fundamental change in the way consumers have behaved over the past 20 years. They talk in terms of Consumer 1.0 evolving into Consumer 2.0. But what do these labels actually mean?

Consumer 1.0

- Earned their wealth in the nineties, and now have high spending power
- Predominantly male and aged over 40
- Drawn to the gravitas of premium brands
- Purchase wine as a symbol of status and wealth

Consumer 2.0

- Currently in their late teens or early twenties
- Will reach their economic peak in 10 to 20 years
- Generation wanting to diversify and form their own identity

Consumer 2.0 is generally aged under 45, and in the USA this age group is providing the biggest stimulus to the wine market – even though they don't drink as much, in volume terms, as the over-45s. They select from a wider repertoire of wines (and other drinks), and tend to spend more on a bottle. They are far more likely to drink sparkling wines, and generally have a greater interest in, and involvement with, the wine category than did their parents' generation.

When we look at wine drinkers in emerging markets, it could be argued that the majority are currently in Consumer 1.0 mode. That's not to say that they are all over 45, male or obsessed with premium brands: the point is that they are still relatively conservative in their tastes, tend to regard wine as a luxury item, and are influenced by a smaller range of factors than their Western counterparts.

But this is changing fast. The internet is opening up international communications in a way that was impossible even a decade ago, and wine culture is now at the fingertips of anyone with access to a computer or smart phone. Social media is linking people in a way that few people in the wine industry – or indeed any industry – ever imagined.

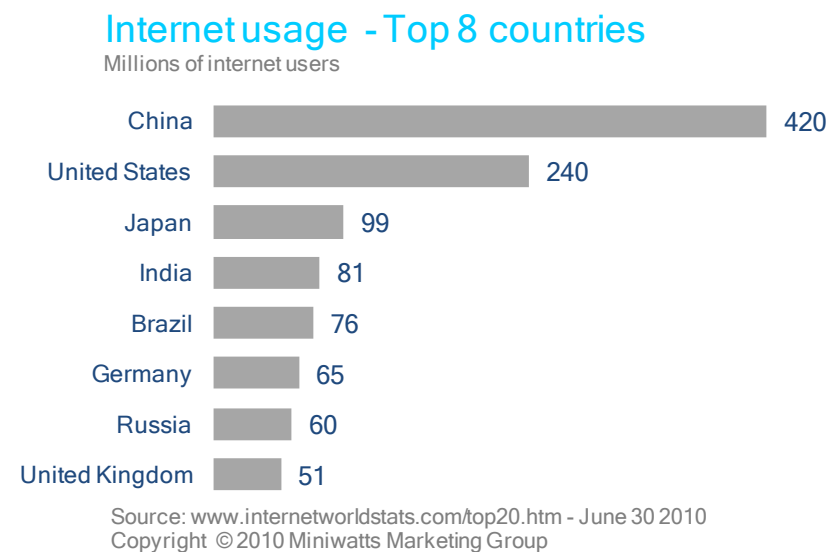
The Beijing Olympics of 2008 did a great deal to bring China into the international fold, and the same is likely to happen to Brazil when it hosts the FIFA World Cup in 2014 and the Olympics in 2016. Such events increasingly occupy the attention of the entire planet, and provide a platform for marketing at every conceivable level, making the world seem like a smaller place than ever before. Certainly there are fewer international backwaters, in wine terms, than at any other time in history.

There are still factors which could derail the wine revolution in emerging markets: natural disasters, political unrest and economic meltdown can never be ruled out. But there are many reasons to believe that the transformation from Consumer 1.0 to Consumer 2.0 could happen very quickly in these countries, as a new generation of wine lovers starts to make its own

choices over the course of the next 10 to 15 years. A surge in demand for sparkling wine is well within the scope of possibilities.

Online and social media have leap-frogged traditional marketing approaches

Another key characteristic of the emerging markets is that they have embraced the internet and social media. In markets where state control has hindered marketers ability to get there brand out there, the online campaigns gather significant traction. The chart below signifies the sheer volume of internet users in the emerging market countries. Whilst the internet penetration rate in China (36%) is not as high as countries such as the UK (82%) any medium with such reach requires a detailed strategy.



The rest of this section provides a short review of impact of the internet and social media in China and Brazil.

China - Internet will play a leading role in the development of sparkling wine

Anyone who has spent time in China knows how central the internet is to the Chinese upper middle class consumer. Recent studies have confirmed that Chinese consumers are among the most connected in the world, and many observers have argued that China is possibly the most interesting country right now for online marketing.

The internet in China is more than just a straightforward source of information. For many consumers, it's a way of life. A McKinsey survey in 2009 found that people in China's 60 largest cities spend a staggering 70% of their leisure time online, and one in five consumers aged between 18 and 44 won't buy a product without first researching it on the web. In China, perhaps even more than in the rest of the world, the internet matters.

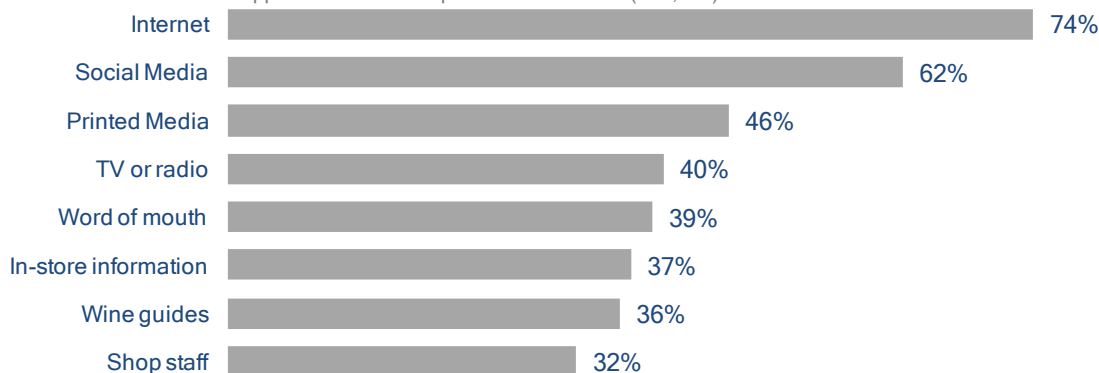
We know that Chinese consumers are using the internet for online shopping and general product research. The question is, are they using it to source information about wine?

This question has been addressed by Wine Intelligence's consumer research in China, and the answer is a resounding yes. Not only is the internet an important source of information for wine – 69% of upper middle class imported wine drinkers say that they often go online to look for wine information – it's actually the most important source, more important even than recommendations from friends and family. If we include those who say that they *sometimes* use online sources, almost our entire sample has at least occasionally gone online to learn about wine.

As we've discussed, sparkling wine has made some excellent progress in the Chinese market, but has some catching up to do. It's almost inconceivable that that this will happen without internet marketing, and social media, playing leading roles.

Usage of wine information sources by main categories

% who use the following information sources "often" for wine information
Base: All chinese upper middle class imported wine drinkers (n=1,017)

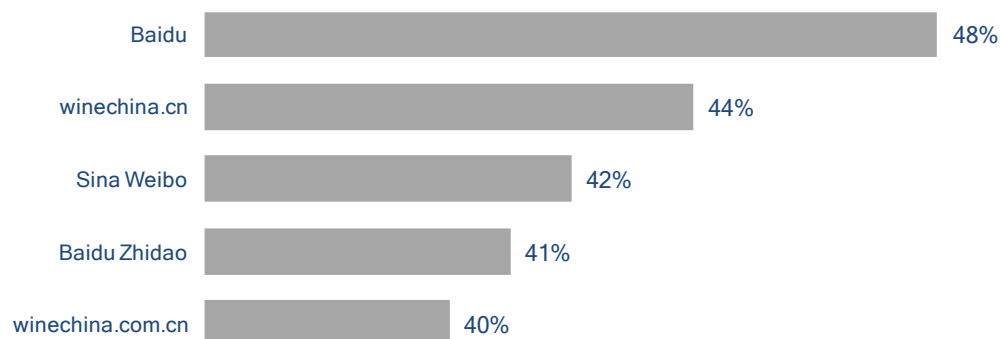


Source: Wine Intelligence, Vinitrac® China, July 2011, n=1,017 Chinese upper middle class imported wine drinkers

It is also worth noting that the websites that would dominate in other markets such as Google, Twitter or Facebook are either not common or not permitted in China. The chart below illustrates the top 5 websites used to source wine information from our latest Chinese consumer survey.

Top 5 websites used to source wine information in China

% who use the following websites, forums and blogs to search for discuss or learn about wine
Base = those who use internet or social media "often" or "sometimes" for wine information



Source: Wine Intelligence, Vinitrac® China, July 2011, n=1,017 Chinese upper middle class imported wine drinkers

- Baidu: Search engine similar to Google
- Winechina.cn: Wine information website providing wine industry information and news
- Sina Weibo: China's largest micro-blog, similar to Twitter
- Baidu Zhidao: User-generated Q&A, similar to Ask.com
- Winechina.com.cn: Wine magazine website/sales platform, the only wine magazine approved by GAPP (General Administration of Press & Publication of the People's Republic of China)

Brazil - the big players have already started to embrace the social media presence

As we've seen, sparkling wine sales are enjoying healthy growth in the Brazilian market. So what, if anything, are the leading players doing online to ensure they claim their fair share of the sales boom?

It's no surprise to see Chandon, the Brazilian outpost of Moët & Chandon, making good use of Facebook (www.facebook.com/chandonbrasil) and Twitter (twitter.com/#!/chandon_brasil). Both sites are updated regularly to keep their target audience engaged.

Brazil's biggest sparkling wine producer, Salton, uses its Facebook page to feed into its own food and wine matching blog (saltonharmoniza.blogspot.com). Aurora, the co-operative established in 1931 and one of Brazil's biggest producers of sparkling wines, also has dedicated pages on Facebook and Twitter. Miolo, a large wine producer and distributor (whose portfolio includes Osborne) also makes use of both social media sites.

Leading Champagne brands like Taittinger, Mumm and Piper Heidsieck do not yet have dedicated promotional websites or social media pages in Brazil.

Freixenet, has embraced the virtual marketing space, having a dedicated Brazilian website (www.freixenet.com.br), a Brazilian Twitter site (twitter.com/#!/FreixenetBrasil) and a Brazilian Facebook page (www.facebook.com/freixenetbrasil). All three are updated regularly to provide details of the brand's promotions and products.

Conclusion

Wine marketers are rightly excited by the potential of emerging markets, and it's no surprise that the focus has fallen initially on still wines. Notoriously, first growth Bordeaux has found an eager audience in the Far East, with eye-watering prices being paid at merchants in Hong Kong. Mainstream brands have also started to colonise these new territories – along with some unremarkable bulk wines that are less easy to offload in more mature markets.

What of sparkling wines? So far, these have played a supporting role. Culturally, they can seem rather alien to consumers for whom still wine still appears strange and exotic (in China, white wine occupies a weird niche, because red wine is considered luckier, and healthier).

But the cultural and economic barriers to entry are gradually coming down in many parts of the world where sparkling wine has yet to make a real breakthrough. Consumer wealth is growing, tariffs lowering, wine knowledge expanding, and the flow of information ever increasing.

The wine industry still has work to do, and the winners will inevitably be the producers and marketers that get closest to the markets they are targeting, and work hardest at understanding what makes consumers tick.

About Wine Intelligence

Wine Intelligence is the leading research-led strategy consultancy serving the global wine industry. It conducts client-specific research projects to enable companies to gain greater insights into wine markets and wine consumers, and helps business leaders develop business strategy and marketing plans. The company also assists businesses in developing new brands, and in formulating and communicating marketing messages within the industry. For more information, please visit www.wineintelligence.com

Andrew Le Breuilly, Research Manager at Wine Intelligence - andrew@wineintelligence.com

Further reading

Further insight on the markets discussed in this report can be found in the following Wine Intelligence publications:

- Brazil Landscapes report - April 2011
- China Internet and Social Media report - September 2011
- China Landscapes report - May 2011
- UK Sparkling report - December 2011
- US Sparkling report - January 2012
- Russia Landscapes report - April 2011
- South Korea Landscape report - July 2011
- White paper: Style trends in the American wine market: A future of diversity? - May 2011
- White paper: Global Wine Market Evaluation Model - March 2011