This is one of a series of thought pieces on major issues for the global wine industry extracted from ongoing research programmes at Wine Intelligence

Introducing the global wine market evaluation model

A tool to assist investment strategies when planning development in international wine markets

We inhabit a wine business world experiencing widespread changes in consumer spending – both upwards and downwards - coupled with equally widespread producer cost increases, and a structural oversupply of wine of the order of 30 million hectolitres a year (the equivalent of around 190 million cases). This cocktail of challenges is unlikely to subside in the immediate future. Against this background, one of the most critical issues facing brand owners, producers and wine region organisations is **investment balance** – where to invest in international markets. At first glance the answer might be easy: "it's China, stupid". However in hindsight such a strategy (popular though it is right now) might be seen as hasty and ill-thought through. How many Gold Rush miners actually made their fortunes?

The purpose of this paper is to outline some of the strategic questions surrounding investment balance which Wine Intelligence is increasingly finding itself involved in, such as:

- In established markets, where should I increase or decrease investment?
- Which of the newer markets offer the best opportunity for sustainable volume and profit growth for my core offerings and competences?

Working with wine companies and organisations to evaluate each market against these investment criteria, we find there are two paradigms that need to be understood and interpreted: (i) routes-to-market, and (ii) evolving trends among the wine consuming population of each market. While much of the research and market development work at Wine Intelligence is about routes-to-market, the focus in this white paper is about **consumers and markets**.

Through our international work, we have often observed parallels between consumer behaviour in one market versus another, or in terms of the way the macro trends of particular markets seem to track one another. Recently, we set out to analyse these correlations, with the idea of drawing together a model that grouped markets together in terms of common themes, and therefore expressing them in a coherent way to businesses looking to make strategic investment decisions for the future. This short paper introduces **the global wine market evaluation model** that Wine Intelligence has developed and will continue enhancing.

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Market segmentation – a model for planning market development

Our starting point is the following observation: while no two wine markets are identical, there are similarities from a consumer perspective which can be used to group markets together under common themes. Having developed and analysed several different scenarios of market grouping, our conclusion is that the best approach is to benchmark and track major international wine markets using a **stage-of- evolution market model.** By applying the key drivers (or input variables) which together make up these common themes across nearly 40 international wine markets, a picture emerges of **five different stages of wine market evolution** from a consumer perspective which, at the top-level, can be represented as Figure 1.

The key drivers from a consumer perspective include: current status of wine in the market, grape-based wine within the beverages repertoire, consumer relationship with the wine category, openness to new and imported product, and discretionary spending potential. And the overall profiling of each stage-of-evolution that emerges from this modelling, along with the markets at each stage produces the following positioning…

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 rapid growth from a relatively low base	Markets where wine is still a relatively new an unknown beverage
Argentina Croatia France Georgia Germany Italy Portugal Spain	Denmark Belgium Ireland Japan Netherlands Switzerland UK	Australia Canada Finland New Zealand Norway Sweden USA	Angola China Brazil Hong Kong Mexico Poland Russia Singapore South Africa South Korea	India Malaysia Nigeria Taiwan Thailand UAE

Table 1 The five different stages of wine market evolution, Wine Intelligence 2011

These and other inputs enable us to position a wine market according to its current stage of evolution from a consumer perspective. This positioning, and the common themes narrative (see below) which accompanies each stage of evolution have already proved very useful in business analysis studies to define development potential by market when using SWOT or other techniques.

Taking this modelling further, we can now identify the key themes or **macro trends** that characterise each stage of development, some positive for wine companies and organisations, others highlighting risk or potentially declining return on investment.

Traditional Established	Mature Established	High growth Established	Emerging	New Emerging
Decreasing volume and value trend	Stable or decreasing volume and value trend	Longer term growth trend in total market volume / value	Generally significant growth, but from small base in terms of market volume and value	Typically significant growth, but from marginal base and risk of fluctuation
Decreasing per capita consumption from high base	Stable or decreasing per capita consumption from high base	Range of per capita consumption levels prevalent	Low per capita consumption rates for wine	Negligible per capita consumption rates across the adult population as a whole
Some shift away from dominance of domestic production	Broad range of countries / regions of origin	Broad range of countries / regions of origin, often changing or developing	Narrow range of countries of origin / wine styles	Limited wines distributed and available
Shift from 'table / bulk wine' to premium bottled wine	Wine often considered drink of choice by many adults in the population	Wine often considered drink of choice by many adults in the population	Market dominated by domestic wine / spirits	Limited wine drinking culture

Table 2 Macro wine trends of wine markets, Wine Intelligence 2011

Which market segment is right for you?

Building deeper understanding the nature of each stage of market evolution

Traditional Established

Argentina • Croatia • France • Georgia • Germany • Italy • Portugal • Spain

These markets are defined as countries with high but stable or declining levels of per capita consumption, typically driven historically by domestic wine production.

However, on the important measure of high per-capita consumption, Traditional Established markets still represent large markets by volume, not to be discarded merely because of declines from even higher consumption rates in former times. For example, three out of four adults in France still report drinking wine at least once a month - the highest of any penetration rate across these 37 markets (Calibration study, September 2009). But the French relationship with wine is evolving. Wine drinking is becoming more occasional in terms of frequency, more confined to specific types of occasion; younger consumers are entering the wine category later than their parents; wine as the everyday beverage-of-choice is declining. In short, the market for wine in France for wine is evolving from Utilitarian to Experiential.

If growth is to be found in this segment of markets, the focus must be on **engaging younger consumers**: raising awareness and preference for wine in their lives to the level of other beverages and social experiences; re-establishing wine as the cornerstone of social drinking as it once was for their parents.

Mature Established

Denmark • Belgium • Ireland • Japan • Netherlands • Switzerland • UK

These are markets which have experienced strong growth in terms of wine consumption but which have now seemingly peaked or exhibiting evidence of sustained decline. Typically, they are non-wine producing countries.

UK and Denmark characterise this segment – both have experienced significant growth over last 15-20 years, but the trend appears to have more or less having run its course. The market may show small incremental growth – we still predict this for the UK, for instance – however it will be value-led, with volume flat or even declining over time. For example, the UK saw an increase of 5 million consumers in the last 3 years, but over the past 12 months, the number of regular wine drinkers only grew in line with population increases (Wine Intelligence Calibration study 2010). Wine drinking in these markets is now a widely-accepted part of everyday life and consumers are becoming more set in their ways.

> *"Re-booting growth in these markets depends on **reigniting the consumer excitement for wine** as centre-stage in their social lives"*

The UK is also now characterised by very high – and increasing – tax levels, which is making wine more of an expensive purchase, and reducing the incentive to experiment. UK consumers report that they are less likely to try different wines than they were just six months ago, and considerably less inclined to do so than in 2007. Six in ten regular wine drinkers now say they either stick to what they know or base their buying decision entirely on price. (Vinitrac® UK Nov 2010).

Re-booting growth in these markets depends on **reigniting the consumer excitement for wine** as centre-stage in their social lives, and the desire to seek out new wines and new occasions to choose wine. These lofty goals require sustained investment in "hard yards" actions to engage more consumers with an emotional connection with wine. Solid evidence from consumers clearly identifies the required action-areas: encourage more interest and involvement in the category through soft-touch educational campaigns; exploit new ways of marketing to reach consumers through the increasingly prevalent new media; and raise the profile of wine across the market. Such sentiment would appear to lie behind the widespread support for the first National Wine Month, scheduled to be launched in May 2011.

It should be remembered that economic factors are also at work in these Mature Established markets. It's no coincidence that all the countries in this segment bar one are highly developed European economies that depend mainly on service industries. All have had serious economic recessions over the past 3 years, and in at least two cases (UK and Ireland) have experienced an abrupt fall in consumer wealth thanks to the collapse in house prices. The one non-European market, Japan, has endured an economic crisis for far longer – dubbed "the lost decade" by economists - and has experienced significant deflation and falls in consumer spending over the past ten years.

Then there is the retail landscape, and in particular the market position and power of the key wine retailers. Discussions about markets such UK, Denmark and Switzerland is inevitably accompanied by supply-side disenchantment with the business opportunity – markets dominated by a few large multiple grocers who demand a greater and greater share of supplier profits until – in some cases – the entire business opportunity has a negative net present value. While this challenge is not exclusive to Mature Established markets, it is a characteristic of many of them and, of course, a critical factor in the investment decision-making process. Short of the introduction of major and unprecedented government regulation (which is likely to be circumvented in any case) we do not foresee the retail landscape reversing course and becoming more benign.

High Growth Established

Australia • Canada • Finland • New Zealand • Norway • Sweden • USA

Markets in this segment are currently a mix of producing and non-producing countries, where wine is becoming a more mainstream beverage-of-choice and is posting above-average growth.

In terms of wine producing-countries two examples stand out: the pool of regular wine drinkers in Australia expanded by 700,000 consumers between September 2009 and September 2010; against the same measure, the US market grew by 4.1 million consumers over the same period (Wine Intelligence Calibration studies 2009, 2010). In both these markets we can discern two evolving phenomena: consumers switching into wine from beer or spirits, and consequent diversification of their imported wines repertoire. The New Zealand Sauvignon Blanc phenomena in Australia is a salient manifestation of this evolution – more consumers embracing wine as (one of) their beverage of choice; consumers reaching beyond the traditional Aussie wine boundaries for a pleasurable and affordable wine experience. Unlike the Traditional Established wine producing markets, the wine-producing countries in this segment are all New World - mainly vast countries where wine was historically the beverage of choice only in the producing regions themselves and per-capita consumption is still climbing out of historically very low levels. In the USA for example, per capita consumption in 1991 stood at just 6.7 litres (compared to 77.1 litres in France). By year 2000, US per capita consumption had reached 9.6 litres, a 43% increase over the preceding decade. Fast-forward another decade to 2009 , and per capita consumption had reached 11.6 litres, another 21% uplift (Figures based on IWSR reporting).

The non-producing markets in this segment are Nordic countries, controlled by state-run monopolies. Common characteristics which can be ascribed to both Norway and Sweden from a wine industry investment perspective include:

- Monopoly retailing regimes which deliberately maintain relatively high prices and favour wine as a more “society-friendly” beverage compared with beer and spirits
- Already high per-capita alcohol consumption levels, with opportunity to increase consumption of wine with switching from other beverage categories
- Monopoly-dictated prevention of discounting and promotion effectively level the market entry and development playing field for all wine companies. These markets tend to offer higher-margin opportunities than in the open markets dominated by a few multiple grocers

With the exception of Finland, the Nordics have sustained relatively stable economies over the last few turbulent years, ensuring consumer spend is relatively healthy and now set to increase. Finland suffered more seriously than its Nordic neighbours in the global downturn, due to greater dependence on specific sectors of international trade.

> “A once-in-a-century moment for the wine industry”

Emerging markets

Angola • China • Brazil • Hong Kong • Mexico • Poland • Russia • Singapore South Africa • South Korea

These are markets where the wine category is undergoing rapid growth in wine volume. The stand-out example is China, where the wine market size is growing at year 20% (IWSR 05-09) and has now overtaken Spain in terms of total wine consumption. Growth in these markets is typically driven by more affluent younger drinkers. Again China: 60% of the upper middle-class regular wine drinkers are aged 34 and under (Vinitrac® China, Dec 2009). In emerging markets characterised by high proportions of new-to-wine younger consumers, recommendation and reassurance of prestigious and/or familiar brands/regions are the dominant choice cues.

Most importantly in getting to grips with these markets, wine is still aspirational, but familiarity with the category and thus confidence to choose is low. Our research highlights an interlocked series of aspiring wine consumer needs in all these markets: desire for navigational signposts; wine choosing and occasion-matching hints and tips; and foundation-level knowledge. Our opinion is that these needs together represent a once-in-a-century moment for the wine industry. This is **the opportunity to influence** a new generation of wine drinkers in each of these markets who are:

- Receptive to educational information
- Increasingly willing to try new wines
- Open to directing more of their rising disposable income toward the wine category

The actual product these new-to-wine consumers encounter and are influenced by is a decision for the supply-side. It may be best-of-breed examples of many wine types at different price-points; it may be tank-emptying stock that the supply side is delighted to “unload”; it may be trophy wines from named Chateaux. Most probably, the supply-side globally will offer a mix of all these. But, for sure, long-tem growth in these markets will be dependent on these consumers being delighted by their wine encounters . . . and wanting more.

New Emerging markets

India • Malaysia • Nigeria • Taiwan • Thailand • UAE

These markets offer even fresher faces to the international wine world - populations where wine is still relatively unknown among the population majority but whose trends of volume and per capita of consumption indicate strong potential as future markets. Of all the wine market segments, this group is least-researched and calibrated, least understood globally. And, as a segment, this group is also the least stable, exhibiting both increases and declines as wine struggles to establish itself as a national beverage.

New emerging markets really embraces to sub-segments – markets which evolving towards the Emerging segment, and markets which are flirting with wine but show no fundamental indicators of becoming serious opportunities for the industry globally. India leads the first of these sub-segments in terms of market volume, but driven primarily by steady growth in the consumption of domestically produced wine. Taiwan, by contrast, leads on the measure of imported wine volume, but the market has declined nearly 6% since 2005 (IWSR 2009).

So what can we learn from segmenting markets by their stage of evolution?

The global wine market segmentation model offers wine companies and organisations a framework and a process for evaluating wine markets based on a universal measure (stage of evolution) which cuts across all geographic and traditional marketing boundaries. Most importantly, this universal measure offers a ongoing benchmark, with markets moving from segment to segment as they evolve. Wine Intelligence intends to maintain and update this model over the next few years, offering the industry as continuous reference point.

It's perhaps useful at this stage to set this model against the typical mode of behaviour exhibited by companies in the wine industry. Basic economic theory tells us that businesses will gravitate towards markets where the returns are best. This act will serve to bring those returns down through greater competition, and an equilibrium point will be reached where the returns are more or less the same everywhere. Clearly this is a simplistic view at the best of times, and particularly so in the wine business, where the impact alone of government regulation and the tax system is enough to distort the returns significantly.

The economic returns theory also ignores the wine industry's most pressing imperative: the need to turn the most recent crop into cash. This imperative often overrides even the need for profit, as the opportunity cost of not clearing the tanks can often be a catastrophic write-down and possible business closure. As such, many wine businesses naturally gravitate towards markets – and customers – who can be relied upon for large orders that will empty the tanks. These tend to be markets where per capita consumption is already high, there is little or no need to invest in marketing and supply chain, and there is a sufficient critical mass of drinkers to tap into.

Given these pressing short-term priorities, there is often a natural reluctance to invest for the long term in markets where the bigger prize is some way in the future, especially where the organisation is regularly accountable to shareholders or stakeholders. This model-based approach to building a market development portfolio might assist businesses and wine region organisations define a balanced market development portfolio, combining higher-return/short-term volume opportunities with longer-term growth where early presence in the market can help build enduring loyalty.

Our conclusion, therefore, is that most wine companies and organisations will want to identify a mixed portfolio, combining well-targeted investment in at least three of these segments, and monitoring markets for short- and longer-term returns using this stage-of-evolution tool.

Of course, beyond macro trends in all five segments, there are local differences that must also be taken into account – and that's before we start drilling down even further into different types of consumers within each market. But that is a matter for another paper.

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

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Lulie is both an experienced wine industry practitioner and a leading wine marketing academic. She is co-founder and Chief Executive of Wine Intelligence.

Previously Lulie spent 8 years in the wine industry building experience in importing, marketing, retailing and new business development. Lulie is also an established marketing academic, specialising in the field of wine marketing and focusing on wine consumer behaviour, and lecturing on the Bordeaux Wine MBA and WSET Diploma.

She frequently speaks at industry and academic conferences around the world, presenting papers on issues such as wine branding, consumer behaviour and new product development. She is a full member of the Market Research Society.

Brian Howard, Associate Director

Brian brings over 30 years sales and marketing experience to the business, including creating, developing and finally selling an independent importer business. He now contributes that experience and his encyclopaedic knowledge of the wine industry to a wide range of clients, including brand owners, generic organisations and events/media providers.

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Natasha joined Wine Intelligence after graduating from the University of Bristol with a BA Hons in French and Spanish.

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