Ignore tough UK wine market at your peril, warns expert

South African wine producers who turn their backs on the UK market, worth just under £8.5 billion a year, do so at their peril. This was the warning given by Charlotte Hey, publisher of The Drinks Business, a leading British trade journal, in SA last week.

She was addressing a marketing intelligence conference for the South African wine industry, hosted by Wines of South Africa (WOSA).

Hey said although the pace of growth in the UK had flattened, wine had nevertheless become entrenched as a drink of choice among Britons, representing 33.2% of all alcoholic beverage retail sales in 2003, up from 31.7% in 2001. Wine was also becoming a more popular beverage in licenced establishments, thanks to its perceived health benefits and the fact that by travelling on the Continent more, Britons were adopting more Mediterranean lifestyle habits at home.

"The result is that the beer industry has begun to view wine as a competitor. You see it increasingly in the language used to market beer. It highlights provenance and the quality of the grain used, techniques usually used to advertise wine."

Even though the UK market had become tougher and more competitive, and Chile was biting at the heels of South Africa in its fight for market share, Hey urged local producers to build on an already strong base, which had seen the country maintain its fifth place in terms of retail market share. This was despite a global oversupply that promoted aggressive discounting among New World and traditional producers.

"Growth might be slowing down but there is a pot of gold for South Africa. You have over-delivered in the value-for-money sector, where wines are priced £4.99 and below, but there's a big gap in the £5 to £8 category."

While also encouraging producers to target the price segment of £10, which would assist in enhancing the image of the South African category, she said enormous opportunities for growth lay in the on-consumption trade. Although it accounted for just 19% of the total UK wine market in terms of volume, it was worth 42% in value.

The steady growth of gastro-pubs, bistros and independent eateries created new opportunities at better margins for producers. "Currently South African wines sold on-consumption offer better value than any other New World supplier."

Producers could maximize market potential by targeting not only the major restaurant chains and independent outlets, but also the caterers, about 40% of whom were still buying from discount retail specialists instead of direct. "You can also drill down into the more traditional levels of the retail trade, focusing on the independents and regional wholesalers, where margins are not squeezed to the same extent that they are by the multiple grocers."

Both Hey and opening speaker Alexandra McPhee of KPMG's Corporate Finance Wine Industry Group in Adelaide, Australia, stressed the need for South African producers to become conversant with the changing global trading environment, which was moving in two streams - one focusing on convenience and the other on destination shopping.

Convenience shopping covered supermarket, forecourt stores and discount retailers, as well as fast-food chains and generally addressed the needs of consumers with a relatively low involvement in wine, for whom high volume, price-competitive branded volume products were suited. Destination shopping targeted the specialist wine shops, niche eateries and fine dining, where consumers were likely to have more of an involvement in wine and were receptive to boutique and connoisseur offerings.

McPhee stressed that with supermarket growth and consolidation, the number of gatekeepers between producers and the retail shelves had reduced considerably, with greater power vested in fewer buyers. She estimated that there were as few as 10 buyers handling as much as 90% of the UK's retail wine trade. At the same time, just 1% of the total number of wine suppliers to the UK were delivering the country' top 50 retail brands.

This not only necessitated greater brand differentiation but also meant producers were having to adopt a fast-moving consumer goods marketing culture, playing a greater role in their supply chain logistics to cut costs and be more competitive while increasing the marketing support of their brands.

McPhee said smaller producers, in order to survive, needed to share resources with each other, such as bottling and warehousing, to release capital for more focused marketing. There were also increasing examples of collaborating producers who, in addition to their individual brands, were creating joint volume brands to generate cash flow.

Referring to marketing opportunities in the US, she said it was imperative to develop a forensic understanding of the country, state by state, where different liquor legislation and restrictions applied.

Turning to the local market and the growing disposable income of black consumers, marketing consultant and director of several leading South African corporates, Eric Mafuna said: "For years the black market was the dumping ground for cheap and nasty goods. The industry must stop treating it as an appendage and discard the marketing strategies that have treated black people as if they were children."

Over 200 marketing executives from the wine industry attended the seminar.

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