



This is a peer-reviewed, post-print (final draft post-refereeing) version of the following published document:

Dwyer, Janet C and Lewis, Nick (2014). *Study on the Competitiveness of European Wines: UK Case Study Summary*. Other. CCRI, University of Gloucestershire, Gloucestershire.

Published by Countryside and Community Research Institute (CCRI), University of Gloucestershire, and available online at:

<http://www.ccri.ac.uk/study-on-the-competitiveness-of-european-wines-uk-case-study/>

We recommend you cite the published (post-print) version.

The URL for the published version is <http://www.ccri.ac.uk/study-on-the-competitiveness-of-european-wines-uk-case-study/>

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Study on the Competitiveness of European Wines

UK Case Study Summary

The CCRI conducted a review of the UK wine market in 2014, as part of a wider evaluation of the EU wine sector in order to assess how to improve its current and future competitiveness. With an analysis of UK market data, policy and literature, the review, which focused solely on still wine, also incorporated face-to-face interviews with stakeholders and gave consideration to characteristics associated with packaged (bottled) wine and wine imported in bulk for bottling in the UK.

The review covered three broad areas:

- I. **UK Market Overview** – key market data and trends related to wine importation, expenditure and consumption.
- II. **UK Market Operations and Characteristics** – details of the key players and trading relationships within the UK wine sector; market and policy developments.
- III. **Factors Affecting the Competitiveness of Wines** – perceptions of EU and New World Country (NWC) wines within the UK; what is important to consumers, and future considerations.

UK Market Overview

Although not a significant producer of wine, the UK remains a key player in the global market, both as the world's largest importer and as a key consumer market. Per capita consumption of wine in the UK is around 20 litres per year, and the nation is considered a 'mature' market. The market is split¹ 45% white, 43% red with the remainder being rosé which has gained market share in recent years. With the 3rd highest rate of duty on still wine in the EU (£2.05/75cl at present), once sales tax is incorporated, 56% of the cost of an average bottle of wine is tax¹. Figure 1 further highlights

Consumer cost per bottle	Retailer Margin	Excise Duty	VAT	Packaging	Logistics	Money for Wine
£5.00	£1.09	£2.05	£0.83	£0.36	£0.20	£0.47
£7.50	£2.03	£2.05	£1.25	£0.36	£0.20	£1.61
£10.00	£2.85	£2.05	£1.67	£0.36	£0.20	£2.87
£20.00	£6.89	£2.05	£3.33	£0.36	£0.20	£7.17

Figure 1. Typical cost breakdown for wine per bottle³ (Bidendum, 2014)

the cost breakdown of differing bottle prices. It is widely acknowledged that most UK consumers are not aware of these figures, particularly regarding tax.

Around half of all wine purchased in the UK is bought in supermarkets, with nearly one-quarter in specialist retailers. At around £5.26, on average, for a 75cl bottle of wine¹, the UK consumer continues to be heavily influenced by price.

Specialist retailers, particularly small independents, have less scope for the discounting widely practised by the main supermarkets and therefore seek to differentiate their offer from the mainstream and sell more on distinctive quality and individual service. Expenditure on wine varies within the UK with London being the area where people spend most per bottle. Lowest expenditure occurs in the South West and Wales. After price, most consumers choose on brand and sometimes on variety, but an increasing minority is interested in wine as a learning experience and will therefore seek by region or producer.

	Year			
	2010	2011	2012	2013
9L Cases consumed (000)	151,474	147,129	144,290	142,489
% Change	-	-2.9%	-2.6%	-1.2

Figure 2. UK Wine consumption figures¹ (WSTA, 2014)



Study on the Competitiveness of European Wines – UK Case Study Summary

UK Market Operations and Characteristics

Wine imports and sales to the UK are dominated by a number of key players. CHAMP Private Equity (Accolade), responsible for brands such as Hardys and Stowells, commands 13% of the UK market by volume². Diageo and Vina Concha y Toro are also significant players in the branded market and the large supermarkets also have own brands, mostly UK-bottled by the same key players and differentiated by market tier (low, medium and high price ranges). The main players worked almost exclusively with NWC wines when they started to build up the UK consumer market 20-30 years ago, and this continues to influence current purchasing patterns and preferences, although EU wines have greater mass appeal now than a decade ago.

Imports to the UK of bottled wine have slowly declined since 2004 as bulk imports have increased. NWC wines account for the majority of bulk imports and thus the volume of NWC bottled wine has decreased. This is a response to freight costs and changes in company and retailer strategies. Bulk importation and bottling is an area in which the UK has gained a reputation, with analysts predicting further growth in line with available capacity. UK bottling is not solely for the domestic market as much is re-exported to other EU member states.

Data and expert opinion suggest that the UK wine market will continue to be fairly static (by volume) and primarily price-driven in the coming decade, with some prospect of 'trading-up' as consumers become more knowledgeable about wines. Some evidence suggests an opportunity for EU wines to pursue a 'Back to Europe' promotional strategy due to their generally lower alcohol levels and perceived greater versatility with food. However, experts were quick to point out that NWC producers have traditionally been quicker to respond to UK consumer preferences, and would no doubt work to realign their products accordingly. Wine fraud was highlighted as a growing area of concern within the UK mainly for smaller retailers and trade bodies, particularly with the growth in online trading – an area that is anticipated to grow significantly over coming years beyond its current value of £800 million⁴.

Factors Affecting the Competitiveness of Wine

The dominant view concerning EU and NWC wine producers is that the latter are more UK-market aware and responsive towards consumer demands, which has given them sustained market advantage. However some independents and even major retailers express a view that EU and NWC wines can be competitive in all UK market segments, if appropriately targeted.

There was unanimous agreement among interviewees that UK consumers demand quality and an appropriate quality/value-for-money ratio, when buying wine. Consistency in the flavour profile between vintages is also deemed to be important, as is the quality of labelling and the brand name.

Varietal labelling was considered an increasingly understood method of wine selection by consumers, which NWC wines tended to exploit more effectively than EU wines. Quality (PDO/PGI; appellation contrôlée-style) labelling offered no real advantage and often confused consumers, except in specialised market niches.

Establishing new wine products in the UK market was recognised as challenging and requiring targeted methods such as using established agents, attending wine fairs and/or seeking to build direct connections with independent retailers. However, fundamental to developing a successful trading relationship was active partnerships with retailers or wholesalers to ensure that each has a clear understanding of how the other operates, and a willingness to tailor production, pricing and other supply characteristics accordingly.

The report authors would like to thank the following for their assistance in completing this report:

Best Cellars
D'arcy Wines
Thomas Panton
Sheldon's Wines
Flagship Wines
Norman Price
Oxford Wine Co.
Bibendum
Storyteller
Tesco
WSTA

Report Authors: Janet Dwyer and Nick Lewis

Key References: ¹ WSTA (2013 & 2014) UK Wine and Spirits: Market Overview; ² Marketline (2013) Wine in the United Kingdom; ³ Bibendum (2014) Vinonomics – UK Wine Pricing Uncovered; ⁴ The Drinks Business (2013) UK Online Wine Market Worth £800 Million

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