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Market and Trade Data

U.S. Wines Poised To Improve Market Position in the United Kingdom

By Jennifer Wilson

The United Kingdom is the world's largest wine importer. Its purchases grew 25 percent from 2001 through 2005, when they topped \$9 billion. Sales have been boosted by consumers drinking greater quantities, slightly higher quaffing of more expensive varieties, and negligible domestic production. U.K. (United Kingdom) market expansion slowed in 2006, when sales value grew by 1.8 percent and volume by just 0.2 percent.

The United Kingdom enjoys a wide variety of wine imports from around the globe. Australia is the No. 1 supplier to the U.K. market, with France second.

Trends for wine sales by large U.S. producers in the U.K. market can be difficult to discern, because so much production is transshipped to the United Kingdom through mainland Europe. According to U.K. customs data, the country imported almost \$3.6 billion of still light wines in 2005 — 10 percent of it from the United States. ACNielsen data, drawn from sales in supermarkets and other retail outlets, show that U.S. wine sales in the U.K. market grew by 8.7 percent in volume, and 10.4 percent in value, from October 2005 to October 2006.

All of this is good news for U.S. vintners, and the outlook for U.S. wines in the U.K. market is extremely bright. Market observers expect that the United States will continue to make substantial market gains for the foreseeable future.

Consumers – and Perhaps Connoisseurs – Key to Swelling Sales

Wine is consumed by almost two thirds of the U.K. population. The average wine consumer now drinks 32 bottles every year. Consumption is steadily rising due to increasing personal disposable income and lifestyle influences from continental Europe.

Affluent persons over 35 years of age constitute the largest wine consumer group. They also account for the increase in wine sales, as opposed to younger consumers being attracted to wines. Slightly more women than men drink wines: 68.5 percent compared to 62 percent.

Branded wines are driving the U.K. market, providing many consumers with comfort because they lack the experience to choose by grape and region (since few have knowledge of

European appellations). Some consumers are brand dependent; they will trust a name and pay for security.

However, there is a small but growing group of U.K. consumers who are wine connoisseurs. They have an interest in wines, and are capable of making choices by grape variety, regional characteristic, and individual production method. These experimental enthusiasts will respond to more detailed messages on provenance.

Fashions Color Wine Preferences

U.K. consumers prefer white wines over reds (48 percent versus 44 percent). Fashion trends heavily influence the relative popularity of wine varieties in the market. U.K. consumers currently favor lighter, cleaner, unoaked whites, such as Sauvignon Blanc, and, in particular, Pinot Grigio – it showed an enormous leap in sales in 2006 of 74 percent. Chardonnay remains the number one white variety sold.

Rosé or blush wines (made from red grapes with the skins removed after being in contact with the juice for a short period, resulting in a taste more similar to white wines) are currently in vogue. Rosé sales jumped by almost 32 percent between October 2005 and October 2006, and they constitute 8 percent of the total market. The increase is predominantly driven by young female consumers purchasing easy-drinking wines such as White Zinfandel.

The three most popular red wines are Cabernet Sauvignon, Merlot, and Shiraz/Syrah. Pinot Noir has recently become fashionable, growing 18 percent in retail sales between October 2005 and October 2006.

In contrast with still wines, sparkling wines contain significant levels of carbon dioxide. Champagne is the classic example of a sparkling wine, and laws in most countries reserve the name Champagne for a specific type produced in the Champagne region of France. However, many other countries also produce sparkling wines, including Italy, Spain, Germany, Australia, New Zealand, and the United States.

Sparkling wines generally have a younger audience than still wines; 20- to 24-year-olds are more likely to choose any sparkling wine, while 25- to 44-year-olds are more likely to choose Champagne. Consumers increasingly perceive sparkling wines as informal and suitable for any occasion.

The most popular style of wine consumed in the U.K. is relatively young and ready to drink. Most wine is purchased in 75-centiliter bottles. However, bag-in-box wines now account for 10 percent of the United Kingdom's still wine retail market, and there is a growing market for 250-milliliter bottles. Following years of debate, U.K. consumers have ultimately shown little resistance to the introduction of screw caps on their wine bottles.

Consumers generally do not consider alcoholic content specifically when choosing wines. High-alcohol content is apparently not a barrier to sales, since many New World reds have relatively high alcoholic content, and their sales are increasing.

Reversal of Fortune in Wine Retail and Food Service Sectors

The retail sector accounted for 79 percent of the volume of U.K. wine sales, and 54 percent of the value in 2005, driven predominantly by promotions and discounting. Competition in the supermarket segment has led to a systematic decrease in the average price of a 75-centiliter bottle, despite consistent excise tax increases from the U.K. government. Supermarkets are not concerned about the amount of discount wines sold, since wine suppliers bear the costs of sales promotions. Many U.K. consumers appear content with the variety offered by their local supermarket, and pick up a bottle of whatever wine is on sale.

However, smaller wine producers are finding it difficult to compete in this environment, and the wine trade is concerned that it may decrease wine choices of wine for the U.K. consumer over time. Specialist wine chains have seen some of their market share eroded by supermarket chains but, with growing consumer interest in wines, they are experiencing something of turnaround in fortune. Volume share for the specialist wine trade is expected to have risen slightly in 2006 over the previous year, and sales of premium wines continue.

In 2005, the food service sector accounted for 21 percent of total wine volume sold, but 46 percent of total value. Restaurants and hotels have experienced tougher trading conditions than pubs and bars. The practice by restaurants and hotels of adding a staggering 300-400 percent markup on wine discourages many consumers from choosing better wines at these outlets.

Pubs and bars, on the other hand, have become a good value alternative, and many display their wine lists prominently. Pubs and bars are also more likely to sell wines the glass in, encouraging people to experiment with higher-value wines.

The Old and the New – Assessing Market Dynamics

Since 2003, total sales of New World wines, mainly from Australia, the United States, South Africa, Chile, and New

Zealand, have surpassed those of traditional Old World suppliers such as France, Italy, Spain, and Germany.

France: French wines continue to lose ground in the U.K. market. In response to market conditions, French producers, in liaison with U.K. importers, are launching innovative branded wines with grape varieties on the labels. France has strong brands such as Bordeaux and Burgundy that enjoy a loyal following among those U.K. consumers who are very knowledgeable about wines. On the basis of these points, French wine sales may recover, but it may take many years. France's best performing wines in the U.K. market are (paradoxically) Champagne and Vins de Pays. Champagne sales are linked to brand awareness. The mass market Vins de Pays delivers quality, fruit-driven wines at a competitive price, and importantly can label by grape variety rather than geographic region.

Italy: Just over one bottle out of every 10 sold in U.K. supermarkets is Italian, making Italy the fourth-largest supplier to U.K. supermarkets. Italian exports continue to grow, albeit more slowly than those of Australia and the United States. Chianti, Frascati, and Pinot Grigio enjoy healthy sales, with Pinot Grigio the new Chardonnay of the U.K. market. Italy's diversity of wines is said to be its greatest strength, but also its greatest weakness as U.K. consumers struggle to understand the relative merits of its different regions.

Spain: Volume and value sales for Spanish wines stagnated somewhat through October 2006, and Spain is in danger of being overtaken by Chile on both accounts. Aside from Rioja and Cava, U.K. consumers find it hard to identify with Spanish wines. Rioja comprises around one-third of all Spanish wine sales. Sales are dampened by the trend toward Shiraz/Syrah, Malbec, and Pinot Noir. Spain has a reputation for cheap red wines, with many selling for under £3 (\$5.86 according to the February 2007 exchange rate). Spanish still white wines are less well known. Some Spanish wine brands are beginning to emerge, particularly from Ribera del Duero.

Australia: Although still in first place, the growth of Australian wine exports to the United Kingdom slowed through October 2006. Large brands play a crucial role in Australia's success, and it has five of the top 10 brands by value. As the focus of the U.K. supermarket chains is firmly on profit

per square meter, they turn to big brands to fill their key promotional slots. Consequently, an estimated two-thirds of Australian wines are sold below recommended retail price. Oversupply of Australia wines has largely made discounting possible.

United States: U.S. wine sales in the United Kingdom are largely driven by the Blossom Hill and E&J Gallo brands. Blossom Hill alone may account for one-third of U.S. sales. In recent years, trade sources have described a polarity in the supply of wine by the U.S. to the U.K. market: plentiful supply of lower end wine and ample supply of boutique-priced wine. The Wine Institute of California is continuing its high-profile campaign to demonstrate to the trade that the United States can supply adequate wines for the U.K. market's needs in the mid-price range.

South Africa: South African exports to the United Kingdom dropped by 10 percent in volume and in value through October 2006. Industry sources attribute part of the decline to the purchase of the Kumala brand, which has recently accounted for 22 percent of South Africa's exports to this market, by Constellation, the world's largest wine company, causing interruptions in Kumala's distribution and marketing strategy. ■

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No Whining About the U.S.-EU Wine Accord

In March 2006, the United States and the EU (European Union) signed the first phase of the U.S.-EU Wine Agreement. The accord represents an important step forward because it gives U.S. vintners more certainty in meeting the import regulations and therefore in supplying the U.K./EU market.

Over time the agreement is expected to facilitate trade by mutual acceptance of winemaking practices, and to provide consensus on labeling, certification rules, semi-generic names, and origin. In addition, the removal of the requirement that still wines should contain less than 15 percent alcohol by volume has opened the door for some boutique wines previously excluded from the market and for sweet and dessert wines. Further information on the U.S.-EU Wine Agreement can be found at: <http://www.U.S.eu.be/agri/wine.html>

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