

WINE IN A BEER COUNTRY

With an average annual consumption of 160 litres per capita, the Czechs drink more beer than any other people in the world. As elsewhere, though, the national beverage is losing ground in favour of wine, especially among the young, reports Šárka Dušková.

After the Velvet Revolution in 1989 and the fall of the Iron Curtain, Czechoslovakia's market became open to imported wine. In 1993, another major historical landmark saw the division of Czechoslovakia into two independent countries, the Czech Republic and Slovakia. After the Czech Republic became a member of the European Union on 1 May 2004, imports of wine rose further, but not as quickly as analysts had expected. Early this year, the Wine Act on Viticulture and Winemaking Practices was adopted, bringing Czech wine legislation in line with European standards.

One major factor contributing to the rise in wine consumption has been the constant growth of the Czech economy. Real Gross Domestic Product increased by 6.1% in 2006 for the second year in a row. At the same time, disposable income has grown: while average gross monthly wages are now CZK22,000 (€785), in 2000 they were only CZK13,000 (€465). The unemployment rate has remained constant at around 7%, and the full currency conversion to the euro is planned for 2012.

Although it has made few great leaps, wine consumption has risen constantly over the past generation, from 14.6 litres per capita in 1990 to 16.1 litres in 2000 to 17 litres today – and analysts predict further growth over the coming years. Total alcohol consumption has been steady at about 10.2 litres of pure alcohol per capita, which is now equivalent to 17 litres of wine, 160 litres of beer and 7.8 litres of spirits. Although the Czech Republic ranks first in the world in beer consumption per capita, it is estimated that 20 litres of that total is due to “beer tourists”. Although beer is still the favourite drink of Czechs, its consumption has fallen in favour of wine, a change that is even stronger in the younger generation. A sense of wine culture is also on the rise, and importers and local producers are increasingly focused on quality wine production.

According to the latest research by OMD Snapshots, 90% of Czechs between the ages 18 and 69 drink wine at least occasionally. Of this group, 34% drink wine at least once a week, 35% once a month, and the rest only rarely. While more than half of all consumers surveyed claim that they have little or no knowledge about wine, and 39% stated that they

knew something about wine, only 6% claimed that they knew quite a lot about wine or that they were experts. According to the Focus agency, the popularity of dry wines has risen dramatically. Interestingly, there is little or no difference in consumption between small municipalities and large cities – people drink wine mainly at home, with family, friends or partners. In restaurants and bars, people drink wine principally by the glass, and only one-quarter of all consumers order a whole bottle. Not surprisingly, 75% of Czechs prefer domestic wine to imported wine. People mostly buy wine

priced between CZK60–100 (€2–3.5). Those who drink spend an average of CZK257 (€9) per month on wine; “well-off” consumers spend about CZK450 (€16) per month.

Most wine sales are concentrated in hypermarkets, where the average retail price of a bottle of white wine sold in January 2007 was CZK56 (€2). The largest chains are all foreign companies: Schwarz (Kaufland and Lidl), Tesco, Ahold (Hypernova and Albert) and Makro Cash & Carry. Czech customers prefer hypermarkets (39% customers) and discount chains (22%) to supermarkets (16%), which is the reason why four big supermarket chains – Julius Meinl, Carrefour, Edeka and Delvita (Delhaize) – have sold their stores and left the country in the past two years.

Although it is currently impossible to obtain reliable total import data on individual brands, it is possible to monitor them through the chains that carry them. However, the list of the top-ten brands sold by Tesco serves to illustrate brand shares in the Czech market. At the top of the charts is the category “Selected by Tesco”. According to AC Nielsen, the willingness of Czech customers to buy a chain's own brands is almost one digit place higher than in Western Europe. A private-label study conducted by Kinoulty Trade in February 2005 showed that one-quarter of supermarket and hypermarket customers are prepared to buy a chain's own-brand wine.

Recently, several chains have sought to improve their reputations by enlarging their wine departments and importing expensive wine. For example, Makro Cash & Carry invested in humidors and now offers Château d'Yquem at CZK11,000 (€395). “Although the top wines are not what our customers

1 Benchmark Data		www.cz
Inhabitants:	10.284 million	
GDP:	CZK 3,204.1 billion (€ 113.3 billion)	
Currency:	Czech Crown (28 CZK = € 1)	
Per adult capita wine consumption:	17 litres	
Total wine consumption:	170 million litres	
Legal drinking age:	18	



MARKET WATCH

are primarily interested in, we sell them because they help us attract new groups of customers,” explains Jana Matoušková of Tesco Stores. Nevertheless, according to GfK research, the Czechs consider any bottle costing more than €5 to be in the “most expensive” category of wine. Nonetheless, sales of these wines are growing by 20% every year. “Recently I have registered a change of customer preference towards premium lines of both sparkling and still wine, and an ever-larger number of Czechs accept higher price levels,” observes Josef Vozdecký, General Manager of the largest Czech producer of sparkling and still wines, Bohemia Sekt.

There are around 1,000 specialized wine shops in the Czech Republic, from big, 100m² outlets to very small, family-run shops in small municipalities. They offer not only quality wine, but also personal attention to customers and, occasionally, an interesting selection of wines. Some importers and producers sell wine through e-shops, but most complain that this channel is not very effective. At the same time, the popularity of top-quality, expensive wines, which are sold by specialized wine shops or directly by importers, is growing among affluent Czechs. “In the beginning customers asked us for cheap wines,” says Jan Neubauer, of Neubauer&syn, who has been importing wine since 1991. “Price was the most important factor. Over the years we registered a rise in demand for quality wines. As consumer knowledge improves, there is a growing group of people in the Czech Republic who are ready to buy top-quality wines – and they know which wine is worth what price.”

How prices arise

Although importers’ margins might be as little as 5–10% when they are selling to chains, they can be as high as 50% on wines sold at less than €7 per bottle or as little as 20% for those above €35. The average is around 30%, so that when an importer buys a bottle of wine for €4 ex-works he sells it to wine shops for €8, including all taxes, transport

QUOTE UNQUOTE

»» The consumer’s knowledge of wine improves every year. ««

Jan Neubauer from Neubauer&syn, Importer

When we started to import wine in 1991, customers asked us for cheaper wine, and price was the most important factor. But after several years we registered a rise in demand for quality wines. The consumer’s knowledge improves every year. There is a group of people in the Czech Republic who are ready to buy top-quality wine, and they know that this wine is worth its price. Fortunately this group of people is growing.



and warehousing, and the consumer then pays €12.50. Restaurant margins are considerably higher. Adding 100% is very common, 300% not unusual. Of late, some restaurants have lowered their margins to as little as 40% in order to attract a savvy clientele. Top hotels in Prague, on the other hand, often demand that “beverage costs” not exceed 20%, which means a mark up of five. Sales there remain sluggish.

Transport costs vary, as in most of Europe, between €0.20 and €1.50 per bottle, depending on volume and country of origin. Since the Czech Republic joined the European Union, duty is paid only on wine from other countries. However, some have negotiated either zero duty (Switzerland) or preferential (Chile) rates. Value-added tax is currently 19%. Although there is no excise tax on wine, CZK23.40 (€0.84) per litre is levied on sparkling wine.

Compared to other European countries, the Czech Republic remains a paradise for advertisers. There are no restrictions,

2 Imports of wine by country in 2006 compared to 2002

2006					2002				
Rank	Country	Volume ¹	Average price ²	MS ³	Rank	Country	Volume ¹	Average price ²	MS ³
1	Italy	524,339	12.60	36%	1	Italy	287,262	11.30	27%
2	Hungary	183,860	14.00	13%	2	Spain	184,220	11.00	17%
3	Spain	177,985	15.30	13%	3	Austria	158,874	8.00	15%
4	Slovakia	114,255	14.90	8%	4	Slovakia	116,365	20.60	10%
5	Austria	86,290	13.40	6%	5	Hungary	114,262	15.50	10%
6	France	41,529	71.00	3%	6	Macedonia	37,567	10.50	4%
7	Chile	32,070	39.40	2%	7	Romania	36,651	10.50	4%
8	Macedonia	28,931	13.10	2%	8	France	30,749	51.50	3%
9	Germany	25,295	36.60	2%	9	Slovenia	17,799	9.20	2%
10	Bulgaria	22,826	26.50	2%	10	Bulgaria	15,721	21.20	2%

3 Imports by wine type

2006	hl	Price ¹
Méthode Champenoise	1,258	674.30
Sparkling wine	19,727	51.00
White wine	592,358	15.60
Red wine	738,213	20.40
Others	5,103	113.60
Total import	1,358,026	19.70

Table 3: ¹CZK per litre

Table 2: Italy has been able, more than any other country, to augment its market share.

¹Volume in hectolitres,

²Average price in CZK (28 CZK = 1€) per litre

³Imported wine market share

and it is legal to advertise all alcoholic beverages in all media. The largest part of advertising budgets is spent on spots on the most important television channels, at least for beer and spirits. Wine promotion is more focused on press and special tastings.

Three countries have long shown significant interest in promoting their wines, which has resulted in their growing popularity: Austria (through the AWMB) and Italy (through ICE), followed by Spain. Recently, New World countries such as Chile, Argentina and Australia have intensified their efforts. Austria benefits from the strong affinity Czech customers show for domestic varieties such as Grüner Veltliner, Saint Laurent and Lemberger, which are also grown in Austria. Promotional activities are mostly limited to Prague, which is the most important market for wine, and it is often left to private importers to compensate for the lack of official support. Sopexa and Maison de France organize some events, but it is the long-established importers of French wine that usually bring the more interesting people and wines to Prague. Similarly, neighbouring Germany could be doing more, but several enthusiastic importers of fine Rheingau and Mosel Rieslings have nonetheless succeeded in making these wines popular in restaurants and among private clients.

Local production has long had a major impact on the wine market in the Czech Republic and, despite the growth of imports, still does today. Local production accounts for more than 33% of the country's wine consumption. Currently more than 18,000 vintners ply their trade over 18,710 hectares, 95%

QUOTE UNQUOTE

»» Customer preferences are changing towards premium wines and higher prices. ««

Josef Vozdecký, General Manager of Bohemia Sekt

The largest producer of sparkling and still wines in the Czech Republic is by far Bohemia Sekt, with an annual turnover of more than CZK1.5 billion (€54 million) and sales of almost 30 million bottles of wine.

The group has a 70% share and leading position in the Czech sparkling wine market, and a 13% market share in the still wine segment.

Still wine is produced by its subsidiaries Víno Mikulov, Haban Cellars, Chateau Bzenec and Vinařství Pavlov.



of which are in Moravia. Major investments in the modernization of cellar technologies have been carried out at all levels and a few winemakers have even been successful abroad. Although Bohemia Sekt exports only 4% of its total production, some small winemakers export a major part of their production. The Czech wine marketing body, The Winegrowers' Fund, was founded in 2002. Before the country became part of the European Union, it supported vineyard planting; since 2004 its mission has been solely to promote domestic wine. ■