

THE SWEDISH MARKET BEGINS TO OPEN

From beyond its borders, Sweden might be looked upon as a land of beer and aquavit drinkers, but wine is actually the most widely consumed alcoholic beverage in the country. Already a thriving market, further changes are afoot, believes Thomas Ilkjaer, as cracks begin to appear in Systembolaget, the Swedish monopoly.

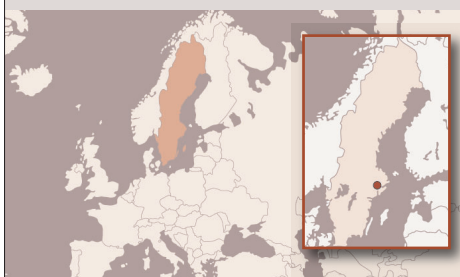
Until 1995, the Swedish state was the only player on the domestic wine market. The state monopoly, Systembolaget, governed import, export, production and the retail sale of all alcohol. As only the retail monopoly remains today, the wine market is quite different from what it was ten years ago. The most important change is the presence of an ever increasing number of wine importers, currently 450 to 500, who offer a growing range of wines to both the Systembolaget and restaurants. Most of them are small companies, especially compared to the state owned Vin & Sprit, but they have had an enormous impact on the market, mostly through the sale of higher quality wines to the restaurants. The ever bigger and better selection of wines at dining outlets has helped change the way wine is viewed in Sweden, with those that receive the attention of journalists and consumers eventually finding their way to the monopoly retail sale.

Ten large companies account for about 60% of the Swedish import market, with Vin & Sprit alone boasting a 20% market share. In recent years, however, a growing number of foreign players have established themselves on the market, including international companies like Maxxium and LVMH, and producers like Miguel Torres, as well as importers from the neighbouring Nordic countries.

“We are very satisfied with the Swedish market,” says Gert Carl from the Danish company Chris Wine. “We went in expecting the monopoly to fall, but have now learned the game and

established a dialogue with the buyers at the Systembolaget. I will not say that I support the monopoly, but I have come to learn its advantages. As an importer you have a difficult time compressing your prices to a minimum, but once you are in, you have guaranteed volumes.”

1	Benchmark Data	www.se
Inhabitants:		9.1m
GDP:		\$291 billion
Currency:	Swedish Kroner 1SEK = \$0.15/€0.11	
Per capita wine consumption:		16 litres
Total wine consumption:		145m litres
Legal drinking age:		20



Right now, everybody is waiting to see what will happen with Vin & Sprit. The government has confirmed plans to sell the state company and rumours abound about potential buyers such as Pernod Ricard, Bacardi and Carlsberg. Whether the sale will have any major impact on the market, though, is an open question. The financial settlement is appealing for the government, since selling Vin & Sprit will also make it easier for politicians to continue their backing of the retail monopoly. This support is based predominantly

on health related arguments, and the wish to control alcohol consumption, but that stance is weakened when its own Systembolaget is actually selling more than 240m litres of wine and spirits each year.

Monopoly constantly challenged

The discussion of the pros and cons of the Systembolaget retail monopoly is an ongoing issue in the national press. Although public opinion is divided, a majority supports the system. The legal age for buying alcohol is 20 and strict age control is undoubtedly among the most important reasons for the wide support that the monopoly enjoys. After the decision in May by the European Court, however, which allows the purchase of alcohol through the Internet, age control will be more difficult in the future. Celebration among consumers, though, is limited, since an earlier decision by the same court made it clear that Swedish taxes must be paid on top of the otherwise very attractive Internet prices posted from other European markets. As the price advantage will therefore be minor or nonexistent, legal purchases through the Internet may hardly increase consumption. Convenience rather than savings will be the issue. However, the importance of another crack in the state monopoly should not be underestimated.

Most Swedes already find other ways than the Systembolaget to access alcoholic beverages. The Centre for Social Research on Alcohol and Drugs has estimated that a sizeable share of total alcohol is either purchased abroad (15%),

smuggled (2%) or home made (3%), a long tradition in certain parts of Sweden. Their list reveals that only around 73% of all wine is actually moved through the retail monopoly, with another 6% being sold in restaurants.

Glory days for the New World

Compared with the Millennium, the Swedes now seem to have taken wines from the New World to their hearts. In 2000, the list of market shares at Systembolaget looked very traditional, with Spain, Italy, France and Germany at the top of the charts, followed by Chile. Today, South Africa and Australia are closing in on Spain and Italy for top spot. If the current trend continues, the two will succeed in ousting the leaders in just a few years. France, now in fifth place, actually sells less wine than it did in 2000, and Germany, long a key player, now finds itself in eighth place, surpassed by Chile and the United States.

In particular, though, South Africa's leap is notable. In 2000, shipments were six million bottles, representing a market share of only 4.1%. In 2006, that share had jumped to 15.1% and the volume increased fivefold to almost 30m bottles. This boom is the most remarkable change in consumer preference in the last decade, with an incredible 537% increase in South

African white wine sales leading the charge. The success of the Cape wines, however, is based on only a handful of bag-in-box wines, seven of which account for 50% of total sales. It is fair to conclude that, despite the skyrocketing sales, most Swedish consumers are only familiar with a couple of South African wines.

Although their market share is based on a higher number of different wines, much the same can be said about Australia. Wines such as Shiraz from Down Under are now back in the position they enjoyed in the early 1990s when the monopoly was importing a vast amount of predominantly bulk wine to be bottled in Sweden. It is now only a matter of time before the best selling red wines in the country are Australian.

The New World attraction

"The producers and wine makers from Australia and South Africa have long been much more attentive to our wishes and ideas," says Vin & Sprit's marketing director, Ulf Sjödin. "They are interested in learning about the Swedish market and willing to listen. They work with us. Nonetheless, I think the major European countries will regain market share in the near future, partly due to a better understanding of our requests and partly

QUOTE UNQUOTE

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Carl Johan Svaton, Arvid Nordquist



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due to ever higher prices from Australia and South Africa."

That said, the current glory days for wines from overseas is further emphasised by Argentina and New Zealand. Although far from being leaders in terms of market share, they were the two countries with the largest rise in sales last year, increasing their volumes by 52.5% and 44.3% respectively.

It is, of course, equally important to look at value in order to have a better picture of the total market. This angle

SOURCES: SYSTEMBOLAGET

1 10 largest suppliers ¹⁾	
Importer	Market share %
Vin & Spirit Group	20.4
Fondberg & Co AB	10.1
Philipson & Söderberg	5.6
Oenoforos AB	5.3
Bibendum	3.8
Arvid Nordquist	3.4
Enosvezia AB	3.3
Stellan Kramer	3.3
Vinunic	3.1
Giertz Vinimport	2.8
Others	38.8

¹⁾ from Systembolaget by volume 2006

2 10 best selling wines at Systembolaget 2006 ¹⁾				
Wine	Origin	Litre	Total share	
JP Chenet Cabernet Syrah	France	2,830,920	1.9%	
Chill Out Sunset Cabernet Sauvignon	Australia	2,668,941	1.8%	
Mauro Primitivo	Italy	2,520,396	1.7%	
Chapel Hill Riesling Sauvignon Blanc	Australia	2,402,475	1.7%	
Foot of Africa Chenin Blanc	South Africa	2,156,724	1.5%	
Chill Out Lakes Shiraz	USA	1,831,368	1.3%	
Oude Kaap Cinsault Ruby Cab	South Africa	1,713,144	1.2%	
Robertson Cabernet Sauvignon	South Africa	1,607,034	1.1%	
Opal Springs	Australia	1,499,385	1.0%	
Lindemans Shiraz Cabernet	Australia	1,464,300	1.0%	
Total		20,694,687	14.2%	

¹⁾ all bag-in-box 3.0 litres

3 Patterns of consumption	
Source	Market share
Systembolaget	73.5%
Restaurants	6.7%
Abroad	15.0%
Smuggling	1.9%
Homemade	2.9%

4 Percentage of packaging		
Red wine	2000	2006
Bottle	71	38
Bag-in-Box	19	56
Tetra pak	10	6
Total	101	100

MARKET WATCH

puts France in a much better perspective, moving it to third place, with an increase of 7.2% in turnover since 2000. Italy is best in class when it comes to value, but South Africa and Australia, leaders in volume, are far behind France.

Much of this is due to a surge in interest in Champagne. Last year, sales reached an all time high of 981,333 bottles, up 16% over 2005 and an impressive 156% increase over the last decade. For Bollinger, Sweden is the largest per head market in the world.

In short, while Spain and Germany are the two losers in the changing Swedish wine market, Australia, South Africa and to a lesser extent Italy are the clear winners.

The bag-in-box rules

There is no doubt that the New World's ability to make straightforward, fruit-driven wines with reliable quality and an accessible price tag is the key to their success. In Sweden, where less than four out of every ten wines is sold in bottle, it is of particular relevance that these countries understood the importance of bag-in-box earlier than their European counterparts.

The Swedes are, generally speaking, people with a great love for outdoor life. Therefore, wines suitable for a boat trip, a hike or a weekend tour to

the summer home have an advantage. Of course, smart marketing and branding helps as well. Although only introduced in 2002, Vin & Spirits' 'Chill Out' series, which offers wines from South Africa, Australia and California that sport names like Sunset, Lakes and Verandas, is now the company's best selling brand. Of the 100 largest selling wines at Systembolaget in 2006, 90 were B-i-B or Tetra Pak.

"Although value continues to increase, we are now seeing the volume in box wine sales stabilising," explains Carl Johan Svaton, wine director at importer Arvid Nordquist. "While the next development will be in packaging types and forms, the quality of the bag-in-box wines will continue to improve. The producers of strong brands have now begun to understand that having a box wine does not necessarily damage your brand in Sweden; nor does it have an adverse affect on the sales of the same wine in bottle.

As much as the convenient packaging, it is undoubtedly the low price that explains the enormous amount of three-litre boxes sold in Sweden. Price is, of course, a key factor in every wine market around the globe, but with an alcohol tax of \$2.47/€1.77 per bottle on a table wine, the price issue takes on added importance. With their relatively attractive price compared to

wine in a bottle, where little sells below SEK 40 (\$6.02/€4.27), box wines are a welcome alternative. That price really is the key factor for most consumers is also seen in the layout of the ever increasing number of the Systembolaget's self-service shops (267 out of 410), where all wines are arranged by price segment. There, a customer interested in checking out the range of Spanish wines might be forced to glance at ten or more shelves.

On the other hand, the mere size of Vin & Sprit and the Systembolaget is of benefit to the consumers in terms of value for money, for it is easier to negotiate price and packaging with a producer or importer when the volume you require is so large. A permanent listing at Systembolaget is the dream for many a wine producer and the resulting competition helps relieve the tax pain. The average price for a wine sold at Systembolaget in 2006 was SEK 60 (\$8.94/€6.40) per bottle - and this number has been quite stable over the last five years.

Low profit and big selection

An interesting price issue, however, is the static profit nature of the Systembolaget. Profit as a share of the final retail price is independent of the traditional supply and demand mechanisms that rule in most markets, which

5 Wine at Systembolaget ranked by volume in 2006 ¹⁾						
Wine	Volume 2000	Value 2000	Volume 2006	Value 2006	Volume share	Value share
Spain	30,288	255,791	23,446	181,761	16.1%	14.6%
Italy	17,498	158,664	22,014	204,507	15.2%	16.5%
South Africa	4,494	40,412	21,940	162,488	15.1%	13.1%
Australia	5,601	50,358	19,357	160,197	13.3%	12.9%
France	15,728	152,332	14,941	163,363	10.3%	13.2%
Chile	7,788	67,556	10,138	80,546	7.0%	6.5%
USA	4,808	43,283	8,692	63,234	6.0%	5.1%
Germany	8,634	64,486	7,087	49,855	4.9%	4.0%
Hungary	2,592	18,370	5,608	36,519	3.9%	2.9%
Portugal	4,051	41,337	3,372	35,467	2.3%	2.9%
Argentina	1,139	10,799	3,356	28,339	2.3%	2.3%
Bulgaria	2,352	17,606	2,304	14,784	1.6%	1.2%
Sweden ²⁾	2,280	40,250	1,476	38,107	1.0%	3.1%
New Zealand	321	3,276	296	4,258	0.2%	0.3%
Other	3,216	32,965	1,238	17,570	0.9%	1.4%
Total	110,791	997,484	145,266	1,240,994	100.0%	100.0%

¹⁾ excluding fortified wines; ²⁾ Predominantly mulled wines; Value in '000 Euros, Volume in '000 Litres

6 Wine sales at Systembolaget ¹⁾		
Type	2000	2005
Red wine	56.0%	57.9%
White wine	32.5%	32.5%
Rosé wine	1.2%	1.5%
Champagne	0.3%	0.4%
Other Sparkling wine	2.8%	2.8%
Fortified wines	3.8%	2.5%
Mulled wines	2.3%	2.0%
Other wines	1.0%	0.3%

¹⁾ Systembolaget handles all over-the-counter sales of wine, spirits and full-strength beer, through 400 liquor stores throughout Sweden. It is a state tool used by the Government to restrict access to alcohol.

means that more expensive wines can be relatively cheap in Sweden. The release of 2002 Romanée-Conti in November 2005 made Danes cross the border and queue on the street overnight. Not only was the price at €1,400 a bottle very attractive, but it was actually possible for normal consumers to purchase a bottle if they did not mind freezing!

Limiting wine supplies

With extremely expensive or rare bottles like these, the limited supply is understandable, but the policy of the monopoly to buy only a limited amount of cheaper wines is also the subject of criticism. Quite often wines are sold out within a few days of release - and a number of the fine wines are only available in the three special 'cellar stores' in Stockholm, Goteborg and Malmo.

Judged as a single wine store, Systembolaget can rightly claim to offer an impressive selection of wines. Currently a total of 1,300 reds, 904

whites, 39 rosés, 223 sparklings and 275 other wines are available in the ordinary range. Although the numbers include the same wines in different bottle sizes, they certainly do make Systembolaget one of the biggest retail chains in the world in terms of range of product. There is, of course, no single Systembolaget store offering all of these wines, but you can order any wine in your local outlet and have it delivered within a day or two. The special order range includes another 3,000 products. These can be ordered through the importer by Systembolaget on special request, but the system is not yet running smoothly and is thus not widely used. Even so, Sweden's consumers have access to a narrower range than their neighbours in Norway. More than the selection of wine, though, it is the high standard of service and knowledge provided by the staff that is being emphasised by the customers as the monopoly's most important advantage. ■

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Ulf Sjöding MW, Vins & Sprit's

Ulf Sjöding, Vins & Sprit's marketing director, suggests that one of the reasons countries like Australia and South Africa have become so successful in Sweden is that they listen to what the market wants. Despite this, he also believes the circle will turn and make European wines popular again, partly because the European producers understand Sweden better and partly due to higher New World prices.

