

CHANGING HABITS

Few of the eastern European countries were as developed as Slovenia when it joined the Common Market. Yet as Robert Gorjak notes, it is only just now that its citizens are beginning to enjoy the fruits...and wines.

Slovenia is a traditional European wine producing country still rooted in its past. With a population of two million, but with nearly 30,000 registered producers, almost everyone is either making wine or knows someone who does. Wine is the national drink, with the country's national anthem a toast. At nearly 42 litres per head, consumption is among the highest on planet, and has remained steady since 2002.

The Slovenian vineyard area, however, has shrunk 5% since the beginning of the century. In 2001 there were over 24,000 hectares of vine planted; today there are fewer than 23,000. This does not mean there is much of an export opportunity for foreign producers. The country is self-sufficient, producing 900,000 hectolitres and consuming around 850,000 annually. As customers are loyal to Slovenian wines, which are generally of good quality and fairly priced, local producers dominate the market.

The largest players are the erstwhile cooperatives Vinska klet Goriška Brda, Vipava, Jeruzalem-Ormož, Vinakoper and Ptujška klet - and most of their wine is inexpensive. Eighty-five percent is sold below €3 per bottle; 40% in bulk at under €1 per litre. Among the top 40 brands at supermarket chain Mercator, the first above €3 per bottle, Srebrna Radgonska Penina, pegs in at only thirteenth. It is a very popular demi-sec sparkler that sells for €7 retail. The next two brands above that threshold, Šipon-Jeruzalem Ormož (€3.60) and Refošk Capris Vinakoper (€4.80), rank 26 and 27 respectively. Of the top 40 brands, there are just seven brands that sell for more than €3 per bottle.

Not surprisingly, most wine in supermarkets is sold on promotion, though there is clear evidence of trading up. From 2001 to date the market share for wines over €4 per bottle has risen from 1.75 to 8.15%. This is due not only to the healthy economy, but also to consumers becoming more interested in both better domestic and a wider variety of imported wines.

Trading up

Nonetheless, although rising, imports are still minute, and the pace is the same in both the on-trade and off-trade. In the

last five years, imports have almost doubled from 1.29% (124.250 9 litre cases) to 2.44% (230.300 9 litre cases) of total consumption. Most of that is sold either through better supermarkets or upscale restaurants. Bars, coffees and bistros are totally dominated by local bulk wines, where they are often sold in one litre bottles.

Given the extra margins, price points are significantly higher for imported wines, 58% of which are sold at above €3 per bottle. The trend to trading up with foreign wines is most noticeable in the capital, Ljubljana, which remains the

most important market for almost all producers. It is estimated that about 70% of imported wine is sold in Ljubljana and its vicinity. Although Maribor, the second biggest city, is showing renewed economic potential after years of stagnation, there is no large market outside the capital.

White wines dominate

Reflecting the proportion of white varieties planted in Slovenian vineyards, white wine accounts for 70% of local consumption. The trend, however, is toward red wine. It is estimated that around 70% of the imported wine is red, but the number could be higher.

The leading imported brand is Povadarje Refosk from Macedonia, which has profited from the local craze for Refosk (Refosco). Priced at €1.67, it is significantly lower than other Refosks of Slovenian origin. Of the imported

foreign brands, most of which sell in the €5 to €8 price range, Freixenet, Casillero del Diablo, J.P. Chenet, Ruffina, Cecchi, Campo Viejo, Jacob's Creek and Calvet are the most widely seen. Given the trend for both red wine and higher price points, imports will certainly continue to grow at a fast clip from the current small base.

As many small producers are not taxed as persons, and can pocket the value added tax of 20%, the ex-cellar price can often be the retail shelf price, giving these wines a price advantage while still allowing the retailer a margin of 15 to 30%.

For imported wines, the shelf price has more components. Beyond the ex works' price, transport to Slovenia from within Europe adds between €300 (\$440) and €450 per pallet.

1	Benchmark Data	www.si
Inhabitants:		2.02m
GDP:		\$47.8b (€32.6b)
Currency:		€ since 2007
Per head annual consumption:		42 litres
Legal drinking age:		none (18 to buy)
Area under production:		23,000 hectares
Domestic production:		90m litres
Market share of imports:		2.5%



As Slovenia has been a member of the EU since 2004 there are no excise or custom duties for wines from member countries; wines from outside the union run from €0.08 to €0.32 per litre.

Before 2004, each wine was also subject to an organoleptical and chemical analysis at a cost of 60€ per sample. As this no longer the case anymore, importing small quantities of wine is now far easier. Importers tend to work with a margin of about 15%, wholesalers – where involved – tack on another 20% and the retailers margins are between 15 and 30%. As a rule of thumb, a bottle with a shelf price of €15 (including VAT) cost only €6 ex cellar – or 40% of the full retail price. For premium wines priced above 15€, margins often fall so that the ex-cellar price accounts for as much as 50-60% of the shelf price. Often that price is determined first by comparing it with that of the same wine in other European countries and then adjusting it for Slovenian market. This requires more knowledge about consumer habits, but can increase sales.

Slovenia allows advertisements for wines below 15% alcohol by volume. Given the current market, it is not surprising that the large local wine producers spend the most on advertising. This year, the biggest spenders were Vipava and Jeruzalem Ormož by far. Vinakoper and Vinska klet Goriška Brda follow a distant third. Print media still accounts for three quarters of all advertising spend, but electronic media is growing rapidly from its current 25% base. Pernod Ricard is the most active distributor of imported brands.

Exports in limbo

Slovenia exported more at the end of the last century than it does today. For years, the United States was the largest foreign market thanks to the brand Avia; but the 3.6m litres exported in 1996 has fallen to 0.86m in 2006, making it the third most important export destination. Silvan Persolja, the managing director of Vinska klet Goriška Brda, Slovenia's big-

QUOTE UNQUOTE

» These are affluent times for Slovenia. The new professional class takes quality seriously and is willing to spend to buy it. These consumers have a global perspective. «

Henry J. Carew from Pernod Ricard

Henry J. Carew is Pernod Ricard's managing director for business development in southern and central Europe.



gest exporter, is convinced the former Yugoslavian republics are, and will remain, the best market for Slovenian wines. "Russia, China and Japan are just wishful thinking or, at best, the cherry on the cake." He further believes that promotion, which is still not well focused, is not the biggest challenge for Slovenian exporters. Instead, he says, "a solid distributional chain needs to be established."

Bosnia and Herzegovina and Croatia, both of which import around 1m litres each year, remain the biggest export markets for Slovenia, now selling around 4.5m litres off shore. Although Slovenia can produce wine of international quality at almost all price levels, only some 300,000 bottles sell for over €3.30 ex-cellar. Slovenia is still unknown to foreign consumers, who, despite the quality, are often not willing to pay the price for Slovenian wines. However, with tourism becoming more important for the economy every year, this is certain to change. ■

2 Imports by country in '000 litres			
Country	2002	2006	Forecast 2007
Italy	193.5	360.0	405.0
Macedonia	36.0	315.0	360.0
Croatia	234.0	288.0	297.0
France	76.5	117.0	135.0
Spain	63.0	54.0	72.0
Chile	-	40.5	49.5
Australia	-	36.0	40.5
Argentina	-	29.3	45.0
Germany	40.5	27.0	31.5
Others	-	92.3	108.0
Total	661.5	1,377.0	1,566.0

Although imports have doubled in only a few years, they have done so from a small base and still represent only 2.5% of total domestic consumption. Italy accounts for a quarter of this volume. Neighbouring Macedonia sells mostly low priced bulk.

3 Price points		
Price in €	2001	2006
<1.00	73.40%	50.07%
1.00-1.99	15.60%	21.09%
2.00-2.99	6.75%	13.11%
3.00-3.99	2.50%	7.58%
4.00-7.99	1.15%	7.14%
8.00-15.99	0.55%	0.90%
>16.00	0.05%	0.11%

Although most wine is still sold at below €3 per bottle retail, the market share for wines at above €4 has risen enormously in the last five years and now accounts for over 8% of sales.



Exports have plummeted since their peak in 1999. Over the same period total vineyard area has also declined by over 5%.