

## PRICE POINTS LIKELY TO SHIFT



*Dutch journalist Cees van Casteren is a wine judge, consultant and author of seven books. He has edited Proefschrift and Perswijn's Supplements and writes weekly newspaper columns in the Netherlands.*

The majority of the Dutch buy wine in supermarkets, where the average bottle cost €2.62 in 2006 and price points were stable. But as of 1 January 2008, all wines have to absorb 20 to 30 cent hikes, which, for the first time since the euro conversion, will be passed on to the consumer.

Just before Christmas, Joris Snelten, managing director of DGS, one of Holland's main importers, sent out a letter to his key customers, the multiple grocers and specialists. He told them that the world glass oligopoly had just confronted several of his main suppliers with severe price hikes, in some cases up to 50%. He also informed them about the sold-out vintage 2006 and the ease with which French and Italian producers had increased prices for their 2007 wines: Double digit rises for all basic wines, from 10 to 50%, to take immediate effect.

Snelten stressed that his customers should take their 2008 positions swiftly in view of reduced availability and increasing global demand. He also wrote about the problems with transporters regarding yet another diesel price increase, as well as the 17% higher tolls on the French motorways. "The final surprise however", Snelten wrote, "comes from our own government. It is a sudden increase of the duty by 16%, effective 1st January, equivalent to ten cents per litre." And he finished his letter by concluding that the combined impact of these various developments will force up the prices of many wines in the Dutch market. "Especially the wines in the basic segment between €1.99 and €2.99, which will no longer be sustainable at the old price points."

### *Murphy's law*

Snelten didn't even mention the new packaging tax of approximately three euro cents per bottle which will also kick in on 1 January - a tax the Dutch government hasn't yet decided how to implement, but that importers already include in their calculations.

"It is Murphy's law," says Frederik Wilbreninck, Group Buyer of Baarsma Wine Group. "While the cost increases of the past were isolated and in the order of one or two cents each, everything has hit us now at the same time. While we are faced with increases of 20 to 30 cents and more, the margins in the basic and popular premium segments do not allow us to absorb anything above a few cents." He predicts

that wines priced at €2.99 will move up to at least €3.29, or maybe even €3.49. The wines at €3.99 and €4.99 won't stay at their old price points either.

Some, however, believe the new situation represents a massive opportunity for the industry as, unlike in previous years, the rise must and will be passed on to consumers. According to them, potential increases of at least 30, to as much as 50, cents per bottle in the off-trade will reduce the size of the step consumers have to take between popular and premium wines: they might be encouraged to trade up.

But Robert Handjes, Brand Manager at Koninklijke Distilleerderij Dirkszwaiger, is pessimistic. "Have you seen any increase in spending power, lately? Neither have I. So when the price of your favourite brand of Rioja goes up, you go to a generic one. The selection of wines on offer actually induces you to go out and try new things."

### *Watch the prices in the shops*

Most of the multiple grocers are already anticipating this new reality. Jan Rustenburg, buyer at Jumbo Supermarkets, admits he has been busy selecting alternatives for his shoppers. "Punters will only accept new price points for the current wines if all supermarkets make the same increases. And I am not sure about that. It is a psychological game." A spokesman for Aldi in the Netherlands said much the same: "In some cases we will pass the increase on to the consumer, in other cases we will find alternatives. We decide on a case by case basis." And Gert Zwitter, Merchandiser at Holland's main grocer, Royal Ahold, cryptically said: "Just watch the shelf prices in the shops."

In the meantime, Joris Snelten notes a complaint has been filed with the Brussels office of the European Commissioner for Competition, Neelie Kroes, against Saint Gobain and BSN, the dominant glass producers. It may help to keep glass prices in check for the long term, but for 2008, it won't prevent a shift in Dutch price points. The prices quoted at the trade fair Wine Professional in Amsterdam in early January confirm his predictions. ■

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