

HIDDEN MARKETS

Wine producers have already identified Brazil, India, Russia and China as key emerging markets. But there are others with potential, as Felicity Carter discovers. And they're already proving lucrative places to do business for those in the know.

Wine producers around the planet are watching wine growth in the BRIC countries closely, waiting for the day when half the population of China and India begins to consume a glass of wine or two after work every day. But that day has yet to dawn, and the queue of people wanting to exploit it is growing steadily longer. So the clever people are devoting some of their energy to wooing the smaller emerging markets that others have overlooked. And that means casting a very wide net. According to Wines of Chile, for example, Colombia buys more than 5.5m litres of Chilean wine from its South American neighbour each year. Rather more surprisingly, the Czech Republic takes 4.5m.

Another enthusiast for Eastern Europe is Australia's Lion Nathan Wine, which is doing well in Poland: "The radical changes in the local economy have totally changed Polish drinking habits," says managing director Anthony Roberts. "We've also noticed a definite trade-up. We're selling virtually exclusively to the on-trade and independents, and sales are growing healthily - doubling in the past two years!"

Marc Allgrove, the international sales manager of Constellation Wines Australia, thinks the Philippines has possibilities. "It's still a poor country, but its colonial history with Spain has meant that the local market has a higher propensity to consume alcohol than the rest of Asia."

Then there's the revelation from Wines of South Africa that they're selling wines to their neighbour Angola, until recently a corrupt, war-torn basket case.

Emerging markets are, almost by definition, not easy to crack, particularly if they are recovering from war. But in our survey of tiny emerging markets, we found three that show particular promise.

"The three most exciting developing markets for us are Poland, Russia and Dubai."

*Anthony Roberts,
managing director,
Lion Nathan Wines*



Dubai

Although Dubai only has a population of 1.4m people, it's wealthy, with a 2005 GDP of \$37bn. The ruling Al Maktoum family want Dubai to become a major business centre, and to that end are bringing in large numbers of foreign workers and professionals - including wine drinking Westerners.

Claire Townsend, sales manager at Bibendum Wine International, which sells its Argentinean brand Argento into Dubai, says the city's wine market is well organised. "Eighty percent of wine sales are through hotels and restaurants, while 20% goes through retail,"

she says. "The way to the market is still through beer and spirits. The way wine is sold is closer to branded spirits."

She adds that because Dubai's government prohibits any advertising of alcohol, business must be done at a higher, more personal level. "The trade marketing and wine dinners have to be sophisticated."

Lion Nathan's Roberts agrees. "Dubai's hotels are attracting many of the world's top sommeliers who, in contrast to working in some recession-sensitive European markets, have the freedom to create the wine list of their dreams," he says. "We anticipate excellent growth ahead."

There are only two distributors, MMI and African & Eastern. Nick Midwood, MMI's general manager of wine, says Dubai's market is growing at 30% per annum, roughly split between 70% on-trade and 30% off. "Only the importers and distributors can operate retail units and of these there are currently 18."

Townsend says Dubai can be a flamboyant market with a thirst for Champagne, in part because it attracts wealthy Russians. But, this being an Islamic emirate, Muslims are forbidden from buying alcohol and everyone else needs an individual

Bibendum reports that in the first financial quarter (FY08), they sold 45% more cases of Argento to Dubai than in the whole of 2007.



alcohol license. "This gives a fixed amount per month that can be spent," explains Midwood. "The average value is \$150. Once this total is reached there can be no purchase until the following month and the value is back at zero."

The alcohol license doesn't go very far, because average prices are high. "There is 50% duty levied on CIF and a 30% sales tax at the point of purchase," says Midwood. "The duty structure funnels consumers to the lower end of the market and the volume of retail wines are sold below Dirhams 40 (\$10.80/€7.38). We have avoided, consciously and subconsciously, the disastrous straitjacket of price points and thus polarizing what we can do."

The market for wine in the total United Arab Emirates, including all buying points, domestic, duty free and airlines, is around 1.5m 9L cases. Dubai itself consumes around 700,000 of those cases, with Midwood saying growth is expected to rise at 30% per year. And, while Dubai is attracting most of the attention in the Emirates, major producers are also reporting good sales in Abu Dhabi.



Vietnam

Like China, Vietnam is a communist country that's developing some very capitalist habits and tastes. Among its 86m population is an emerging middle class that is engaging with wine for the first time.

Guillaume Blanchard, key account manager for Saigon-based Les Celliers

d'Asie, says wine sales are being driven by social change. "Wine is a status symbol," he says. "If you're drinking wine or Champagne, it shows you are definitely somebody."

Jim Cawood of VINO, a distributor based in Ho Chi Minh City, says that while the overall market is still based around tourists and the ex-patriate community, it's growing at the rate of 30% to 40% a year. "Vietnamese customers have an average spend that's better," he says. The changing role of women is partly responsible.

"A lot of young professional women now have important managerial positions and they do business with foreign clients. It's not culturally acceptable for them to go to karaoke bars and get plastered, and the foreign businessmen don't like it either. But to have a glass of wine is acceptable." Cawood, who has been in Vietnam for three years, importing names like Petaluma, Wither Hills and Marchesi de Frescobaldi, says the Vietnamese are also coming to the end of what he calls their 'whiskey phase': "They start with rice spirits, then beer, then whiskey, then Cognac," he says, adding that Vietnam is now the second biggest market in the world for Johnny Walker Blue Label. "Because a bottle of Johnny Walker Red costs \$10, people think anything cheaper can't have any quality." Cawood says one of the biggest mistakes importers make is trying to enter the market with cheap wines. "If Vietnamese consumers are going to buy wine it has to look expensive and be expensive," he says. "If someone gets a bottle of wine as a gift, they will often ring us and ask the price, because when they return the favour, they need to know what the wine was worth." He says people normally spend around \$30 a bottle when giving wine as a gift and so mass market wines like Yellow Tail find it hard to get themselves established.

Wine knowledge is still an issue, with both importers saying that many consumers don't know the difference between whiskey, wine and Cognac. "The important thing to remember is

that now they are interested," says Blanchard. "Three years ago in wine training, people would just look at you. Today they're asking questions."

And trying to take advantage of the lack of knowledge is another major mistake. Cawood says that until the last few years, the market was dominated by French wine. Even today, some Vietnamese think the words 'Bordeaux' and 'wine' are synonymous. But although French wines still have cachet, the French are losing market share. Cawood says it's because producers were dumping wines they couldn't sell in France, in the belief that the Vietnamese wouldn't know the difference," he says. "France is about 36% of the market at the moment. It was 56%..." The next two biggest producing countries are Australia and then Chile, revealing that Vietnam is following a similar path as Western markets.

Wine is mostly sold in bars, hotels and restaurants, rather than for private consumption. "There are dedicated Western style wine shops," says Cawood. "But in Ho Chi Minh city there are only three, which is not many for 8m people." Overall he is positive about future prospects, saying that in "Vietnam, when things change there is rapid take-up," adding that, while there is still a divide between north and south, "Vietnam is a much more homogenous nation than China and the scale there is so massive that things can't change so quickly. The Vietnamese market is still untouched."

How much it costs to import a bottle

In this example, the FOB price of a bottle is \$2.00

1. Add shipping cost of \$0.20 per bottle = \$2.20
2. Now add an import tax of 62%* = \$3.564
3. Now add luxury tax of 20% = \$4.2768
4. Now add value added tax of 10% = \$4.70448

The wholesale markup is 20%, with the retail markup adding another 30-35%.

*This has just only recently dropped from 65% and is only offered to 'preferred nations'. For the others, the old rate of 65% applies. Also note that to import into Vietnam, you have to register as a Vietnamese company.



Angola

Less than a decade ago, Angola, was a hellhole, ripped apart by a 27-year-old civil war, a deadly relic from the Cold War. Today, although Angola's people are still some of the poorest in sub-Saharan Africa, the country is Africa's second largest producer of oil and diamonds, which is bringing wealth into the now peaceful country.

"Angola bought a lot of wine in the past," says Paulo Amorim, vice president of ViniPortugal. "It went through a non-buying period during the civil war years. When peace came, imports started growing again."

Duncan Bonnett, a director of South African research consultancy Whitehouse & Associates, says Angola is the biggest market for wine in Africa after South Africa. "The market in Angola grew from around \$24m (€16m) in 2002 to over \$80m in 2006 - an increase of about 229%."

The key supplier is Portugal at 64%, which is not surprising, given that Angola is a former Portuguese colony and the official language is Portuguese. Spain is number two at 23%, with South Africa at 4%.

"In terms of price, the wines we surveyed ranged from \$1.80 per litre to around \$50 for a bottle of good red at retail level," says Bonnett. "Importers are generally putting about a 25% markup on their goods, with retailers adding another 25% to 50%, although the hospitality sector adds anything from 70% to 250% on to the price." He says this means that if you look

at the overall market, you could probably double the import value and put it around \$160m in 2006 dollars.

When it comes to bottled wines, reds are the most popular and are available in a wider range, priced from \$4 to \$20. "They mainly drink table wine, not only cheap stuff, but more expensive brands which are consumed by the elite linked to political power," says Amorim. "FOB prices vary from €0.80 per one litre to €5.00 per 0.75ml bottle of better stuff. You will also find some of the most expensive and niche wines from Portugal."

Sparkling wine accounts for around 6% of the market. The vast majority of people, however, drink Catembes, a popular mix of low quality bulk red wine that retails for \$1 a litre, mixed with Coke and sold in the outdoor markets. Along with cheap European and South African bulk, wine from Latin America is also entering the country, though Bonnett says "it's an opportunistic thing, where someone will just ship through a couple of containers of wine every few months without building a brand."

Wine dumping may turn out to be a shortsighted strategy. Angola's median age is 18, and these young people are likely to trade up from Catembes as they get older and wealthier. Secondly, the rapid reconstruction is pulling in wine-drinking foreign workers. "The number of hotels being built is amazing," says Bonnett. "There is a huge shortage of hotel accommodation, because as soon as a hotel is finished, the oil companies block book the rooms."

1 South African exports to Angola*				
	2004	2005	2006	2007
White bottled	1,620	2,149	145,775	149,061
White bulk	0	0	0	123,880
Red bottled	5,244	1,108	166,557	206,147
Red bulk	0	0	0	7,696,740
Rosé	0	0	7,227	369,137
Sparkling	450	0	503,967	1,098,097
TOTAL ALL WINES	7,314	3,257	823,526	9,643,062

* In litres

"In 2004, Portugal exported around €27.9m (equivalent to 423,090 hl). In 2005 it was €31.9m and in 2006, €39.5m."

*Paulo Amorim,
vice president
of ViniPortugal,
explaining how
much Portugal
exports to Angola.*



Whitehouse & Associates identified around 30 key companies involved in wine exports, including importers, distributors and wine bottlers. Some are devoted to wine, while others are large supermarket groups that do their own importing. The key importers are Angolan, though there are some Portuguese ex-pats running import businesses, along with Portuguese importers with head offices in Portugal. Corruption is not as much of a problem as it was, as Bonnett says the Angolans have outsourced both port operations and customs to a European consortium and are very keen to maximise income from customs duties.

Amorim says that the market, at least for Portuguese wines, can't continue to grow at its breakneck speed and says each new wine listed tends to cannibalise the market share of its competitors. But Antonio Estarreja, senior manager of Portuguese producer

Espora, whose Monte Velho is Angola's most popular Portuguese wine, remains confident, saying their exports are increasing at 80% a year. "Their economy is very strong in petrol and diamonds. They have water, they have cocoa, coffee, everything." Except infrastructure, which they are building as quickly as they can. "They need everything," he says. "The nightlife is building up very fast and they are building supermarkets in the provinces, so wine is spreading inside the country." ■

SOURCE: DEPARTMENT OF AGRICULTURE, DIRECTORATE FOOD SAFETY AND QUALITY ASSURANCE

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ESPIRITU DE CHILE Ltd.
Commercial Office:

Kupferbergterrasse 17-19
55 116 Mainz/Germany
info@espiritu-de-chile.com