

IMPRESSING THE RUSSIANS

The Russian wine market may still be small relative to its population, but growing wealth, steadily expanding consumption and rising wine imports give international producers a reason to approach it with optimism, says Eleonora Scholes.

Peace and prosperity appear to have settled on the Russian wine market. Since the country embraced a free economy, wine importation progressively went from a state of near anarchy under onerous tax burdens in the early 1990s, to a more civilized way of conducting business, with streamlined state control, in the middle of the decade. Then came the financial crisis of 1998, which nearly toppled the market, only to be followed by a phase of slow recovery at the turn of the century. Yet another crisis hit the market in 2006, this time caused by the introduction of new excise stamps and the poor implementation of the unified monitoring computer system, EGAIS. With that phase over, the market is now enjoying a period of buoyant trade, though no one knows exactly how long it will last. Such a roller coaster ride is not for the faint hearted, but those who have chosen to embark on it know that it can ultimately provide significant business and financial rewards.

Market set to grow

Despite such uneven development, the wine market in Russia still showed amazing performance over the past decade or so. Wine consumption per capita more than doubled, from 2.5 litres in 1996 to over 5 in 2007. There is a good reason to believe that, in the next 15 years, the gap between Russian and European levels of consumption may close entirely. The Ministry of Economic Development recently announced that the Russian middle class will grow from a current 21% of the population to 30% in the next 18 months, and will cover half the population by 2020.

Today, about a quarter of Russians have a monthly income between \$500 and \$3,000 per family member, all of whom can be counted as existing or

potential buyers of mid and high quality wine. Although the vast majority of wine is still consumed at home, the popularity of wine bars and restaurants in the capital is on the rise. This trend is also filtering through to key regional centres.

The total Russian wine market today is estimated at between 700m and 1bn litres. The Research Agency for Federal and Regional Alcohol Markets reports that consumption in Russia grew from 500m litres of still wine and 100m litres

1	Benchmark Data	www.ru
Population:	142m	
GDP nominal:	\$1000bn	
Per head consumption:	5 litres	
Domestic production*:	470m litres	
Bottled imports:	246m litres	
Legal drinking age:	18	



of sparkling in 2000 to 800m litres of still and 220m of sparkling in 2007. If calculated in percentage terms, it means an impressive 70% growth achieved in less than a decade.

According to customs figures, 616m litres of wine were imported into Russia in 2007. It would be misleading to think, though, that all of it found its way onto the shelves of shops and supermarkets as genuine French, Spanish or Chilean wine. Russian bottlers can still label their product as Russian wine even if it was made, completely or partially, with

imported bulk. Total bulk imports stood at 370m litres, the main suppliers being Spain, Argentina and France.

Bottled still and sparkling wine is traditionally presented separately in statistical documents, and the latest figures show 230m and 16m litres correspondingly. The list of top exporting countries opens with Bulgaria, at 28% for still wines. Along with Russian bottlings, it largely covers entry level wines and plays the same role as Chile and Australia do in Great Britain. The second and third positions are taken by France and Spain. New World countries are in the minority. They can't compete on price in the entry level segment against domestically bottled or Bulgarian wines, and have to be positioned as mid-range due to higher ex-cellar prices and importation costs.

Although Italy didn't qualify in the top three countries for still wine imports in Russia last year, it is the leading foreign supplier of sparkling wines, accounting for over half of total shipments (55%). Its success is linked to Asti, which has become a leading 'brand' for unpretentious Russian drinkers. At the opposite extreme, Champagne has been selling exceptionally well, as confirmed by an announcement from the Comité Interprofessionnel du Vin de Champagne. With an estimated 1.03m bottles in 2007, Russia joined a list of only 15 countries which drink over a million bottles of Champagne a year. Even so, it's worth noting that imported sparkling products still represent less than 10% of this hugely popular category in Russia, which provides an opportunity for further growth.

Power of importers

The Pareto 80/20 principle is largely applicable to the Russian market. With

over 100 importers of wines and spirits, only about 20 exercise real influence and they control around four fifths of the volume. With the exception of Bordeaux, Russian importers work with producers on conditions of exclusivity. If a producer has a large range, different brands may be divided between two or three companies. Most importing businesses were founded and still belong to Russian entrepreneurs.

Earlier in the spring, Whitehall set a new precedent. Central European Distribution Corp. bought 75% of the business and 49.9% voting stake of this Russian-owned company, the first time a Western drinks holding invested in the distribution of wine in Russia. Whitehall is a key player on the Russian market for premium wine and spirits and is the fifth largest importer by volume, with exclusive contracts for LVMH brands and Chile's Concha y Toro.

The market is also witnessing growing signs of the new power of regional wholesalers. If before they focused solely on distribution, nowadays quite a few have started direct imports to complement their existing ranges. Erdin, a traditional wholesaler that also set up its own imports, was listed among the top ten Russian importers by volume in 2007.

The following companies distributed the highest volumes in Russia last year: Luding, Megatis, Rusimport, Alianta, Whitehall, Mosel, Svarog, Simple, Erdin and Fort. Luding, recognized in the Who's Who in Russia survey as the most powerful off-trade importer, with 14% of total bottled imports, still relies heavily on basic Bulgarian and French wines. However, recently it has started to build a portfolio of more respected international producers. Simple, on the other hand, focuses its efforts on prestige on-trade labels, with a diverse range of Italian wines, as well as a selection of premium producers in France, Spain and the New World. Rusimport, Alianta, Mosel, Svarog and Fort work both with grand distribution channels and the HoReCa sector. Multiple chains and retail outlets present a convenient opportunity for a consumer to buy a bottle of wine; thus, around 80% of wine sales are registered off-trade.

RUSSIAN TOP FIVE	
1	<p>Luding</p> <p>55, Ryabinovaya ulitsa, 121471, Moscow, Russia Phone: +7 495 446 36 44, www.luding.ru</p> <p>CEO: Armen Shakhazian Wine imports in 2007: 35m litres* Suppliers and brands: Compagnie Française des Grands Vins, Ginestet, Jeanjean, Batasiolo, Dinastia Vivanco, De Bortoli</p> <p>By far the biggest wine player, with around 1,000 entries on the list and 14% share of imported bottled wine. Sixty percent of portfolio by volume is devoted to basic level Bulgarian and French wine, but the company is also building a range of wines from international quality producers. Luding employs aggressive developmental strategies to ensure deep market penetration.</p>
2	<p>Rusimport</p> <p>79A/25, Altufievskoye shosse, 127410, Moscow, Russia Phone: +7 495 901 10 11, www.rusimport.ru</p> <p>CEO: Mikhail Vladimirov Wine imports in 2007: 18m litres* Suppliers and brands: Les Grands Chais de France, Louis Jadot, Vidal-Fleury, CUNE, Peter Mertes, Penfold's</p> <p>The company, with 2,500 staff, specialises in the import and distribution of wines, spirits and tobacco products. It has built a solid business network in Moscow and 32 key Russian cities. The range is diverse, from France to Hungary, California to Australia, and is distributed both on- and off-trade.</p>
3	<p>Alianta</p> <p>Vereyskaya Plaza 2 Business Centre, 29/134B Vereyskaya ulitsa, 121357, Moscow, Russia Phone: +7 495 980 10 73, www.alianta.ru</p> <p>CEO: Armen Grishkian Suppliers and brands: Bernard Magrez, Yvon Mau, Ferrari, Santa Carolina, Yellow Tail, Golden Kaan, Cloudy Bay, Delicato</p> <p>Founded in 1993, Alianta remains one of the big players on the Russian market, with a wide range of wines from both Old and New Worlds, and distribution built across the country. Its strategy is to offer value to customers. The company is well known through various wine promotional events and sponsorships.</p>
4	<p>Whitehall</p> <p>33/5, Dmitrovskoye shosse, 127550, Moscow, Russia Phone: +7 495 977 70 00, www.whitehall.ru</p> <p>CEO: Mark Kauffman Wine imports in 2007: 10.5m litres* Suppliers and brands: Moet & Chandon, Veuve Cliquot, Joseph Drouhin, Guigal, Asti Mondoro, Robert Mondavi, Hardy's, Concha y Toro</p> <p>With sales of LVMH brands and Concha y Toro, Surise and Frontera brands to ensure cash flow, Whitehall used to offer one of the most exciting portfolios of premium wines and New World wines on the market. The range was recently cut, though some jewels remain. Whitehall owns a small chain of Kauffman wine shops: three in Moscow and two in St Petersburg.</p>
5	<p>Svarog</p> <p>Magnus Business Centre, 34, 9-ya Linia, Vasilievsky ostrov, 199004, Saint Petersburg, Russia Phone: +7 812 702 1818, www.svarog.sbp.ru</p> <p>CEO: Alexander Slugin Suppliers and brands: Dourthe, Laroche, Ruffino, Torres, Errazuriz, Sandeman</p> <p>Svarog is one of the oldest Russian importers and the only St Petersburg company that made it into the Top Ten list. With a broad portfolio and operations in both on- and off-trade, last year Svarog announced plans to open a chain of 100+ wine shops throughout Russia within the next five years.</p>

*According to Russian customs

OFF-TRADE

Fine wine importers cannot provide wine in huge volume by definition, but they offer the most exciting ranges. Their wines are mainly distributed in restaurants, wine boutiques and among private clients. There are also a number of niche specialists and importers, such as Biowine, Grandi Vini, Interproduct, Vintage M or WineVipClub, who deal with high-end wines.

Trends for the near future

While general sales projections are optimistic, the fine wines sector is becoming concerned over rising prices. Massive price hikes for Bordeaux first seen in October 2007 negatively affected sales and caused some importers to cut down their Bordeaux offerings. With Bordeaux losing ground, new consumer interest is being shown in Burgundy. Demand for Champagne is growing, and producers are only too happy to oblige with extra quotas originally reserved for the US market. While Russians are cooling towards Super Tuscans, they are acquiring a taste for the autochthonous grapes from Tuscany, Piedmont, Veneto and Friuli. Sales of New World wines show stable, if unremarkable, growth.

The coming months are likely to show a continuation of current trends, but we might also see some unpleasant surprises. With the issue of rising prices, the performance at the high end of the market may be adjusted to a more moderate rate. In the meantime, the return of Moldovan wines will shake up the lower end, though it is unlikely that they will regain their former market share. Moscow will remain fundamental to the general success of the market, but the buying power of the regions will continue its slow, consistent growth. With better regional expertise, distribution is also likely to improve.

The Russian market is tough and competition fierce. Not all players are well equipped financially or logistically nor have enough motivation to succeed. While Russia continues to boom, market analysts warn that the Russian economy is overheated and may collapse in the next year or so. If it happens, the wine sector will be badly hit. ■

RUSSIAN TOP FIVE

1	Simple	<p>11/2, 4-ya Magistralnaya ulitsa, Moscow, Russia Phone: +7 495 510 5001, www.simple.ru</p> <p>CEO: Maxim Kashirin Wine imports in 2007: 3.7m litres* Suppliers and brands: Marchesi de'Frescobaldi, Banfi, Allegrini, Vega Sicilia, Alvaro Palacios, Bouchard Pere & Fils, Trimbach, Laurent Perrier</p> <p>Having started as a specialised Italian importer, with top producers from all regions of the Apennine peninsula, Simple now offers a wide selection of star producers originating from Europe and New World. The company also owns a chain of Grand Cru wine bars, shops and the Enotria wine school.</p>
2	Vinicom	<p>34/63, Obrucheva ulitsa, 117342, Moscow, Russia Phone: +7 495 925 75 17, www.vinicom.ru</p> <p>CEO: Sergey Nosovkin Suppliers and brands: Louis Roederer, Baron Philippe de Rothschild, Georges Dubouef, Ornellaia, Ricasoli, Freixenet, Carmen</p> <p>Vinicom is among the most important wine companies on the Russian market. It has a portfolio of popular international quality brands, as well as a selection of ultra premium producers. Vinicom also owns and distributes Russkaya Loza wine, produced in the south of Russia.</p>
3	United Distributors	<p>56/24, shosse Entuziastov, 111123, Moscow, Russia Phone: +7 495 221 40 61, www.finewines.ru</p> <p>CEO: Valery Filatov Wine imports in 2007: 0.8m litres* Suppliers and brands: Billecart-Salmon, William Fevre, Perrin & Fils, Dr. Loosen, Bruno Giacosa, Bodegas Roda, Torbreck, Felton Road</p> <p>The company focuses only on high-end wines and spirits and is known for its carefully chosen, balanced range of superb producers from France, Italy, Spain, Portugal, Australia, New Zealand, Chile and Argentina.</p>
4	DP-Trade	<p>29, Nizhegorodskaya ulitsa, 109052, Moscow, Russia Phone: +7 495 937 9460, www.wine-dp-trade.ru</p> <p>CEO: Dmitry Pinsky/Igor Davtian Wine imports in 2007: 0.3m litres* Suppliers and brands: Moueix/Duclot, Domaine de la Romanee Conti, Bollinger, Gaja, Alejandro Fernandez, Egon Muller, Kracher, Montes</p> <p>Since it was founded in 1994, the company pursued the strategy of working only with the most emblematic producers in the world's classic wine growing regions. DP-Trade's range is reserved only for restaurants, enotecas, private clients and its own chain of boutique shops in Moscow, St. Petersburg, Rostov-na-Donu and Sochi.</p>
5	MBG	<p>36/9, ulitsa Novy Arbat, Moscow, Russia Phone: +7 495 690 7482, www.mbgimpex.ru</p> <p>CEO: Irina Fomina Suppliers and brands: Baron Edmond de Rothschild, Ruinart, Chapoutier, Antinori, Tua Rita, La Rioja Alta, Joseph Phelps, Rupert & Rothschild</p> <p>The company that started as Intendant wine boutique (still operational) has grown to be one of the leaders on the Russian fine wines market. MBG works in Moscow and another 60 cities, and supplies both restaurants and multiple chains. MBG is a partner in the Cantinetta Antinori restaurant in Moscow.</p>

*According to Russian customs

FINE-TASTE



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Feiner Sekt
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