

AFTER VODKA AND BEER

In the Ukraine, wine pales in popularity when compared to vodka and beer, remaining in the mind of most consumers as little more than a product for special occasions. But, as observes Evgeniya Rodianova, changes are afoot.

Although wine's popularity has been gradually increasing over the past 10 to 15 years, analysts still describe the Ukraine as a country with an under-developed wine culture. The average Ukrainian consumes 4.5 litres of wine each year; but that number has grown by only five to six percent annually since the millennium: beer and vodka are still more likely to be a Ukrainian's drink of choice. However, this market is developing, if not always in terms of sheer quantity, in quality terms, which is particularly tangible in the still wine segment.

Until recently imports of still wine roughly matched those of exports in volume, but that has begun to change. While exports remained stable, imports grew in 2005 by 23% in volume and 16% in value to constitute 15% of the total wine market. In the first eight months of 2006, the volume of imported wine was almost twice as high, reaching 2.1 million cases with a value of €19.5 million, showing further growth of 35% over 2005.

After Russia closed its market to Moldovan and Georgian wines, the majority of large producers switched their attention to the Ukraine. However, unlike those from Moldova, Georgian wines compete in higher price segments and thus do not seriously disturb domestic producers in terms of volume.

Five years ago, most Western European imports came from France and Italy, as buyers were attracted by the known brands that they had heard of, but never tasted, and were willing to pay the corresponding prices. Since then, the share of wines from the New World has increased dramatically, with Chile, Argentina and South Africa being the success stories in 2006. Along with the Spanish and more particularly German producers, whose market share increased threefold, these countries divide the import market among themselves through a small number of large companies such as Pernod-Ricard Ukraine, Marcom, Vinfort, VINT, Premiumwine, Olever, Orlando and Dolmart.

Market segments

As would be expected, not all countries of origin operate in the same segment of the market. At the lowest prices, Moldovan wines cost two to at most five Euros per bottle and

control the market. The ordinary wines of Europe and the New World are found at about seven Euros, which is where the importers see the future. You will also find a surprisingly wide spectrum of wines in the off-trade from France, Italy, Austria, Germany, Spain and Portugal at €10-25. The super premium class, with wines costing €25 and more, is seen almost only at the best restaurants in the large cities. The finest châteaux of Bordeaux are well-known to the Ukrainian buyers who are able to afford them and the market for fine wines has grown faster than the market as a

whole. Each year, a number of new fine wine shops open in which it is possible to find not only exclusive brands, but also to order rare bottlings with limited circulation that few would have thought available here.

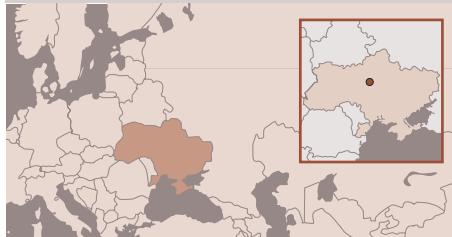
As in other markets, the percentage of wine being sold on-trade varies depending on the class of wine and the country of origin. Interestingly, as much as two-thirds of the finer wines are sold in restaurants, with the very best only available at their tables. On the contrary, ordinary wines may not even see 30% of their volume sold on-trade. Further, with the noticeable exception of sparkling wines and the Crimean brands such as Massandra, Inkerman or Koktebel, lists at restaurants tend to offer less domestic wine. There are, however, numerous Ukrainian taverns with deliberate local colour catering mostly to foreigners that

tweak the curiosity of their guests with a wider spectrum of wines from local vineyards.

Who drinks what?

The citizens of Kiev follow European trends and prefer dryish red wines with soft tannins, though some of these border on semi-sweet in style. Although they lag behind the capital in wine culture, a similar picture is observed in the other large cities of eastern Ukraine. Those regions with their own wine traditions such as Transcarpathia or Crimea are more parochial and tend to drink mostly local wines. In Odessa domestic and imported wines have equal market shares. Generally, though, there is less difference between the individual regions than between bigger cities and the country

1	Benchmark Data	www.ua
Inhabitants:	46.5 million	
GDP:	US\$338.5 billion (€58.7 billion)	
Currency:	Hryvnia (UAH100 = €15.59)	
Per capita wine consumption:	4.5 litres	
Total wine consumption:	210 million litres	
Legal drinking age:	18	
Vineyard area:	80,000 hectares	
Domestic production:	15 million hectolitres	



villages. Almost everywhere, though, wine sales fall dramatically in winter, when consumers prefer stronger drinks, making a distributor's life a roller-coaster ride.

Although the popularity of white wines is growing, red is still the preferred colour of drink. That favours French producers, who ship almost only red wine to the Ukraine. As seen elsewhere, the demand for easily accessible white wines rises in summer, with red wine stepping to the fore at the approach of fall. Fortified and sweet wines become favourites in winter months and are always popular at feasts and banquets. At these occasions, sparkling wines, which account for half of the top ten brands in the country, are also popular, being perceived by many Ukrainians as an object of domestic pride with guaranteed quality.

How do prices work?

As in most Eastern European countries, 60% of all wines are sold at very low prices. The high end, on the other hand, is not large, but growing faster. Those Ukrainians who can afford them prefer to buy wines of medium to high price hoping that the outlay guarantees better quality.

Analysts note, however, that one distinctive feature of pricing in the domestic Ukrainian wine market is the lack of transparency, with popular wines from well-known producers often selling for little more than unknown examples. Apparently the "dinosaurs" of domestic winemaking have taken such a passive marketing position that active newcomers have been able to replace them in consumer consciousness, with the well-advertised image of the new brands reflected in their price. As they are generally aiming for higher price points, they have quickly learned the importance of not only quality, but also of bottle, label, cork and packaging.

The average retail margin of supermarkets is about 30%, and in specialized boutiques and restaurants it can reach 50%. This may not seem high by some standards, but it places wine out of the reach of many consumers. Further, the increased costs of gas supplies from Russia dealt a blow to the psychological confidence of many consumers and have taken money out of their disposable incomes. Moreover, the excise duty rates have risen fourfold for semisweet and eight times

COMMENT

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Alexey Sajfudinov

Much of the growth we see in 2007 will come as a result of the modification of import duties. Also, beginning this year, the annual import license for importers of alcohol, which ranges from €85 to 250,000, will be significantly lowered. Further, if we join the WTO, our imported wines will become even more competitive in the market. Beyond the introduction of premium Georgian wines this year, our company will focus on Chile, South Africa and Australia.



Alexey Sajfudinov is the marketing director at Vinfort, one of the leading Ukrainian importers.

for fortified wines since 2004. Thus more than half of the small, family-operated producers have been driven out of business. Fewer than 200 of the some 550 wineries registered in 2000 are still trading. Additional anxiety is raised by the possible entry of the Ukraine into the World Trade Organisation. The remaining domestic producers worry that the market will be flooded by foreign companies dumping wine at discount prices, making their continued survival even more complex.

Whatever happens, the struggle between domestic and foreign brands is certain to intensify. Not surprisingly, there is talk of consolidation in the domestic industry to protect market share. Whereas many analysts consider this a natural phenomenon in a maturing market, others see it being driven purely by the "fear of imports" which haunts the Ukraine. Be that as it may, success will come only to those who combine a quality product with an effective marketing policy. Such companies will continue to build their customer base, be they fans of national colours or experts on fine wines from abroad. ■

1	Top 10 selling Wines in the Ukraine
1	Artomovskoe sparkling, Artemovsk Winery
2	Sovietskoe sparkling, Stolichniy Kiyv State Winery
3	Magarach, Institute of Grape and Wine "Magarach"
4	Massandra, Massandra
5	Sovietskoe sparkling, Kharkiv State Winery
6	Odessa, Odessa State Winery
7	Noviy Svet, Noviy Svet Winery
8	Frantsuzskiy Bulvar, Odessaviprom
9	Koktebel, Koktebel Winery
10	Vinodel, Knyazhiy Grad Winery

2	Total Consumption	
	2001	2005
Beer	146,374	218,2
Total spirits	60,701	54,69
Total wine	26,082	28,603
Still light wine	21,065	22,785
Sparkling wine	4,551	5,298
RTDs	7,89	9,5

Total consumption by category:
volume in 1,000s of 9-litre cases

3	Wine imports in Value and Volume			
	by € 1,000	%	in litres	%
Moldova	11,151	66	1,598,220	56
France	4,831	31	355,640	38
Hungary	1,690	14	268,630	-82
Italy	527	-13	134,330	11
Germany	97	155	40,420	162
Georgia	62	-79	1,747,620	25

Wine imports by origin Jan 2006 Aug 2006
and change compared to the same period in 2005