THE OUTLOOK FOR INCREASING ON-TRADE PENETRATION IN THE UK OF RED AND SPARKLING WINES FROM GERMANY

Research thesis for Weinakademie Österreich D7

Abstract

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Objective

The objective of the thesis is to determine whether a perceived under-representation of German Sekt and Pinot Noir red wines on the wine lists of UK restaurants is real and to better understand the opportunity to increase their representation within their categories.

Approach

This paper examines the market penetration of German red and sparkling wines in the UK on-trade by assessing the absolute and relative availability of such wines in UK restaurants. The purpose is to provide a starting point for assessing whether there is a clear opportunity to increase the representation of such wines on the wine lists of UK restaurants.

Methods

1. Primary research into the wine offerings of UK restaurants, distributors to UK restaurants and retailers that are considered to be taste influencers in the UK
    - the catalogue product lists of distributors to the UK on-trade
    - the wine lists of UK restaurants,
    - the stock list of the largest influential retailers (supermarkets) of wine in the UK
2. Published sources from experts including
    - magazine articles and books
    - trade association publications and reports
3. Interviews with expert market participants and commentators
4. A SWOT analysis identifying the factors and arguments that are developed more fully in this paper.

Results and analysis

Results indicate significantly lower penetration in wholesale distribution channels of German Sekts and Pinot Noir red wines relative to comparably or lesser established producer nations such as New Zealand and Australia that have a similar reputation for quality. Furthermore the expanding penetration of less established exporters in these categories such as Chile, Romania, South Africa (all lower cost producers) and England demonstrate the challenge of growing exports in the UK's crowded and price sensitive market. Feedback from experts highlights the following factors that disfavour Germany:

1. Common cultural heritage favours the new world producers from English speaking producer countries over Germany.

2. Low export focus towards the UK in these categories. Baden is the largest area for red wine production in Germany. In Baden the producer industry is dominated by co-operatives with low export focus and consequently only relatively few producers are building and sustaining significant brands in the English speaking export markets. Strong branding is needed to overcome stiff competition from larger scale distributors associated with sparkling and still wines of other countries.

Penetration levels on the restaurant wine lists sampled was slightly higher than for distributors. Probably this indicates the positive role played by specialist distributors and direct sourcing by sommeliers at the premium end of the market. One specialist distributor interviewed reported they were seeing increased sales of German Pinot Noir red wine as a response to the very high Burgundy price inflation.

A search was made for potential catalysts that could influence consumer tastes positively towards German Sekt and red Pinot Noir wines thereby increasing demand in the on-trade. The supermarkets that have the highest coverage of the UK's market and restaurants specialising in German and middle European food were considered but neither demonstrated a positive catalytic impact.

In a SWOT analysis, very significant structural strengths were identified: the distinctive/unique qualities of Germany's premium Sekts and red wines, the existing well established distribution network for German Riesling and the potential climate warming benefits supporting more consistency of high quality within Germany's red wine sector. These strategic strengths can potentially support growth in Germany's market share in the UK for these newer wine categories. However to be probable, the weaknesses highlighted would need to be addressed by structural changes amongst producers to create a greater number of UK focussed export champions with sufficient scale to take significant market share from other producer nations. Nevertheless some of the weaknesses highlighted in research can be more easily addressed to increase sales at the margin. Success in increasing sales by specialist distributors suggests there may be room to create more specialists to increase this effect. For example VDP could be a catalyst for this. Furthermore references to confusion amongst consumers, not least related to complex labelling, indicate the presence of opportunities to increase sales at the margin through better communication.

Conclusion

The main conclusions from this research can be summarised as follows:

- Low penetration of both Sekt and red pinot noir wines from Germany is evident in the UK on-trade and its supply chain. This is more pronounced for Sekt than for red wines.
- Low export commitment to the UK by producers limits catalytic opportunities for increased near term penetration
- However, increasing penetration *at the margin* is possible but more likely for German Pinot Noir red wines than for Sekt

Further work would be needed to determine whether the supply side factors identified play a bigger or lesser role than the demand factors. This could be achieved by spending more time interviewing the VDP and a number of its members to understand better the motivation of current and potential exporters of premium wines to the UK and marketing resources available. Additionally more time spent with Wines of Germany would lead to more insight into the marketing and communication challenges that may be contributing to the relatively low consumption of German red wines and Sekt in the UK. Further exploration of and contact with producers in Baden may also reveal opportunity to create more export focussed brands from within Germany's most productive red wine region. Accessible opportunities to increase sales at the margin lie in the area of marketing and communication. For example with a campaign to make a virtue of idiosyncratic German labelling using humour to demystify them. Further opportunities may also exist for brand development specifically for the UK export market but this would require significant further research. Specialist distributors have reported increasing sales which indicates that increasing the number of specialist distributors may be effective. However, this is likely to have only a marginal impact within the context of a relatively weak near term economic outlook in the UK's price sensitive market that is mature and highly competitive in the relevant categories.