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Online Wine Is Growing in Europe

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Contents

A crowded online wine market in Europe	2	Bulk wine pricing	6
Global trade	3	Currency outlook	7
US import trends	5		

Growing online wine sales in Europe

Against an overall trend of stagnant consumption, online wine sales are enjoying sustained growth in all European countries. Margins are attractive due to a more premium mix than that available in brick-and-mortar stores. Online activity also offers valuable consumer insights in a particularly fragmented and complex industry.

Global trade

Global wine trade in Q3 still reflected the scarcity triggered by the 2017 harvest, with export volumes from Europe and Chile still down on an annual basis. The large harvest of 2018 started to have an impact at the end of the period.

But the market is overcrowded

With more than a hundred suppliers ready to meet demand no matter where the consumer is, gaining sufficient scale is a challenge, in particular for pure-players. Profitability may take longer to achieve, and access to funding is also competitive. Consolidation will continue.

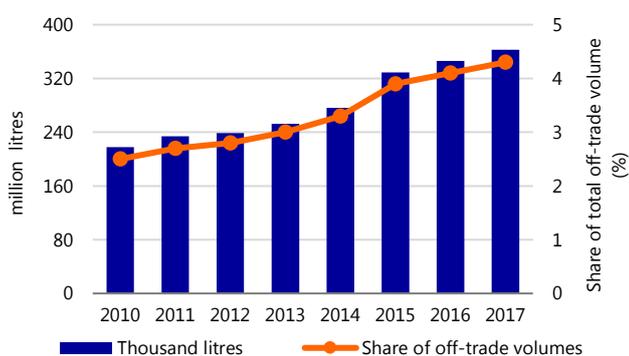
Contracting bulk wine prices

Prices for generic wines from Spain and Italy are easing in anticipation of the greater availability that the 2018 harvest will provide. International prices for Argentine wines are also lower, in this case driven predominantly by the peso devaluation.

A crowded online wine market in Europe

Online sales account for around 4% of the total off-trade wine volumes in western Europe (Figure 1). This may not seem like much at first sight, but it means that over 360m litres of wine were sold online in 2017, with growth rates and product mix comparing very favourably to the overall market. Between 2010 and 2017, total wine consumption in western Europe declined by around 5%, while the total volume of wine sold through e-commerce increased by 66%.

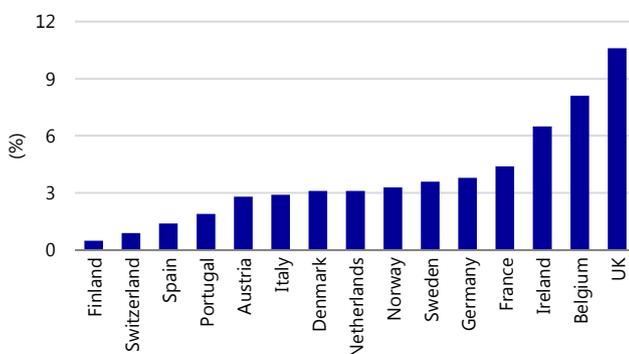
Figure 1: Online wine sales in western Europe: Total volumes and shares of total off-trade.



Source: Euromonitor

Although the share of e-commerce in total off-trade wine sales varies from country to country – representing over 10% of total volume in the UK and less than 1% in Finland and Switzerland (see Figure 2) – online sales are gaining share everywhere in Europe, and growth is expected to continue. Demographics, consumer dynamics, and an evolving supply all support a further expansion of online wine sales.

Figure 2: Online wine sales as share of total off-trade volumes



Source: Euromonitor

In addition to convenience, online wine buyers search for uniqueness: products and an experience that they can't find in their local shop, and they are prepared to pay

more for it. As a result, the average price-per-bottle sold online is higher than in the supermarkets. As such, the market share of e-commerce is even higher in terms of value than in volume

Strategic value of e-commerce

For wine sellers, e-commerce can offer additional benefits beyond a positive sales outlook, such as an easier and cheaper geographic expansion. Above anything else, it can provide valuable customer insights that can enhance performance in all channels. However, to reap all these benefits, operators need to attract and retain sufficient customers and be able to count on adequate technology and data management.

Hundreds of suppliers ready to sell

Online wine sellers include food retailers (Carrefour, Albert Heijn and Tesco), specialised shops (Lavinia, Gall & Gall, Nicolas), independent local players, and even wholesalers that have incorporated e-commerce as an additional business line. Other historic players, such as catalogue sellers and wine clubs (Vinosselección and Club Français du Vin) have also moved online, sometimes entirely abandoning their previous business models. Virtually all of the European wineries have a website (some of them even have a web shop), although direct online sales are generally not a priority for them.

A myriad of new models emerges

Given the growing consumer interest in buying online, there has been a boom in start-ups in this space in recent years, using various customer propositions to try to compete, including: subscription models (My Vitibox, Le Petit Ballon); wine auction (iDealwine); price (Wijnvoordeel), a specific origin (Vinissimus); and local/regional/national delivery coverage that enables advantageous delivery costs and times (Virgin Wines, Wine in Black, BELViNi). Most of them also offer additional content and services, such as wine tastings or wine clubs.

But perhaps the biggest disruption brought to the wine industry by e-commerce has been the emergence of platforms/market places such as Uvinum and Winebuyers. These platforms bring consumers in direct contact with wineries and product owners. The platform itself manages the website, facilitates the processing and the transaction, and provides data management of the product. As a rule, they don't take ownership of the product or even engage in the distribution.

The greatest added value of such platforms is generally the technology. The platforms don't own stock and don't necessarily undertake logistics activities. Their revenues come from fees charged to buyers, sellers, or both.

Operational, regulatory, and competition challenges

Though growing in popularity, selling wine online faces two key challenges. First, alcohol sales in Europe are confronted by specific regulatory requirements that are particularly challenging for e-commerce. Second, and perhaps even more difficult, is the growing difficulty of trying to stand out in an increasingly crowded market.

Online wine sales in western Europe face two specific regulatory issues that make it different from other types of online sales: age-gating and fiscal compliance.

In the case of online alcohol sales, age/identity control upon delivery triggers a relatively high percentage of failed deliveries, with the resulting inconvenience and increased operational costs. Furthermore, business-to-consumer (B2C) cross-border deliveries, even within the EU, are confronted with VAT and excise tax regulations, as well as other administrative procedures that are complicated and costly to comply with.

While managing regulatory issues adds a layer of complexity, the biggest challenge for wine e-commerce players is trying to maintain consumer interest in a market that is increasingly crowded with new competitors. In most of the European markets, a potential customer can choose from up to several hundred suppliers prepared to deliver wine to his address. This makes differentiation increasingly difficult. Requirements such as minimum purchase amount, delivery costs, or compulsory subscription fees are increasingly difficult to impose on buyers. As a result, many operators struggle to gain the scale and/or margins required to achieve satisfactory returns.

Challenges for wineries and start-ups

Traditional wine sellers recognise the trend of online sales, but have generally struggled to find the right business approach to capitalise on the opportunity. More than one has started and then abandoned online sales due to lack of profitability. A website is not enough, and most of them lack in-house technological capabilities to optimise online opportunities.

Pure-play businesses are predominantly start-ups with a business model specifically designed for online wine sales. However, they need to compete not only for clients

but also for access to funding. Even the most asset-light business models, such as platforms, take time to become profitable; the increasing number of competitors means more time is required to reach sufficient scale to break-even. As a result, these start-ups are requiring increasingly more funding over a longer period.

Winning strategies in wine e-commerce

Depending on the stage of development and position in the wine market, different players may have different priorities for their online wine strategy. For start-ups, this may include securing additional funding to survive. For pure-players, this may involve aligning partners to consolidate and expand the business. Larger players may focus on honing the consumer insights that can be gleaned from online sales and acting on the opportunities that these provide.

While different types of players will have different needs and priorities, we believe that the rise of wine e-commerce is creating a range of potential win-win M&A opportunities (traditional retailers buying online specialists, established brand owners acquiring technology/data management capabilities, etc.) that should be explored. The market may be crowded and complex, but for brand owners hoping to achieve any semblance of scale, having an e-commerce strategy is becoming a necessity. And given the pace of change, e-commerce strategies must be continually re-evaluated.

Conclusions

Online wine sales will continue to gain market share in western Europe. However, the market has become overcrowded, and consolidation will continue to force weaker players to exit. Existing players need to consider their long-term strategy. There are currently opportunities to find the right partners to fill gaps in capabilities, but time is ticking.

Global trade

Export trends of major producers

Global wine trade in Q3 continued to reflect the scarcity triggered by the 2017 harvest. More recently, the large harvest of 2018 is starting to create a fundamental shift in availability and prices (*see Bulk Wine Prices section near the end of this report*) which will have a profound impact on trends in 2019.

France

For the first nine months of 2018, exports of French wine declined by 4.6% in volume (*see Table 1*). A modest increase in sparkling wine exports and large-format wine packages (2-10 litres) were more than offset by declining volumes in bottled and bulk table wines.

In value terms, exports increased by 4% YOY, with average prices rising by double-digits in still wines, while contracting slightly for all sparkling wines. Bordeaux wines saw a 21.8% increase in average price per litre. Likewise, wines from Languedoc-Roussillon and common wines also saw a double-digit increase in prices.

Sales to the US, Germany, and Scandinavia increased in both volume and value. Exports to the UK and China declined in volume terms, but average prices increased.

Italy

Exports of Italian wines declined by 9.8% in volume during the first nine months of 2018 and increased by 3.4% in value terms. For Q3 2018, average bulk wine prices declined and were below those of 1H 2018 and Q3 2017, as they started to show the impact of 2018's large crop. Average prices for bottled and sparkling wines remained stable at higher levels than a year earlier. Volumes remained elusive for exports of bulk and bottled wines, though sparkling wines maintained their good performance.

Exports of sparkling wine to the US maintained their positive trend in Q3, but volumes of still wine declined. Sales to Germany were down due to the contraction of bulk wine exports, but volumes of sparkling and bottled wine for the first nine months of 2018 were virtually unchanged when compared to those of a year earlier. Sales to the UK declined in all segments.

Spain

For the first nine months of 2018, exports of Spanish wine declined 15% in volume, but increased 4% in value compared to the same period a year earlier. The volume contraction accelerated in Q3, driven by a 20% reduction in bulk wine exports. Average price per litre improved due to the resulting mix effect, given that bulk wine sales contracted more than bottled or sparkling wine exports. However, underlying average export prices in Q3 for each segment remained broadly in line with those experienced in 1H.

US

US wine exports in the January to September period declined by 1.8%, as a sharp contraction in bottled wine exports (-15.8%) could not be entirely offset by larger bulk wine sales (+20.3%). Much of the shift from bottled

to bulk exports was driven by one company, and it appears to represent a decision to bottle more of their product in Europe.

Exports in value terms declined by 3.1%, reflecting the change in the mix between bottled and bulk, while average prices actually increased in both segments.

Table 1: Change in wine exports for selected countries

Country	Volume change (%)	Value change* (%)	Period of measure
France	-4.6	4.0	Jan-Sep 2018
Spain	-15.0	4.0	Jan-Sep 2018
Italy	-9.8	3.4	Jan-Sep 2018
US	-1.8	-3.1	Jan-Sep 2018
Argentina	18.1	1.3	Jan-Sep 2018
Chile	-9.4	1.3	Jan-Sep 2018
South Africa	-6.3	4.2	Jan-Dec 2018
Australia	5.0	11.0	Sep2017-Sep2018

* Note: value changes in local currencies, Argentina and Chile in USD
Source: Wine by Numbers, OIV, SAWIS, Rabobank 2019

Argentina

In the January to September period, exports increased by 18.1% in volume and 1.3% in value (measured in USD). This reflects a 144% increase in bulk wine exports, while bottled wine sales were down by 4.3%. A tenfold increase in sales of bulk wine exported to Spain is the key driver in the numbers. Volumes sold to the US and UK declined. Average price per liter in USD increased for bottled wines, but declined for bulk wine.

Chile

For the January to September period, Chilean exports declined by 9.4% in volume and increased by 1.3% in value. Sales of bulk wine for the period declined by 16.9%, and bottled wine exports were down by 4.2%. The figures indicate that in Q3, exports of bulk wine moderated their YOY decline to 12%, but the contraction of bottled wine exports reached almost 10%.

China consolidated its position, as the largest buyer of Chilean wines. Sales to the US – still Chile's second-largest market – declined both in volume and value.

South Africa

In 2018, South African wine exports declined by 6.3% in volume but increased by 4.2% in value (in local currency) when compared to 2017. Bulk wine exports declined by 8.3% in volume but increased by 6.9% in value: An increase in sales to Germany and other European markets couldn't entirely offset lower sales to the UK, US and other countries.

In 2018, volumes of packaged wine exports to other African markets increased but this was not enough to offset lower volumes sold to Germany, UK and other major off-takers of South African bottled wine. Export prices (in local currency) increased for all segments.

Australia

In the 12 months to September 2018, Australian wine exports grew by 5% in volume and 11% in value, continuing the trend from 2017. Bulk and bottled exports grew in both volume and value terms. Australia's top five export markets by value are: China, the US, UK, Canada, and New Zealand. Exports showed continued growth, by both volume and value, to all except the US, which recorded a drop in both volume and value. The US market is squarely in the sights of the Australian wine sector, with a focus to reposition itself as a prominent producer for the premium wine segment. This will assist in reversing the trend of declining overall value of Australian wine exports to the US over recent years. Canada has bucked the US trend, with imports of Australian wine increasing by 16% in volume and 9% in value YOY to September. Looking ahead, the current extremely dry and hot weather in Australia may bring downside influences to the 2019 vintage.

China continues to be the most significant market for Australian wine exports, importing 25% more Australian wine by volume and 24% by value YOY. Growth to this market has, however, slowed in the third quarter of 2018, compared to the same time the previous year.

New Zealand

In the 12 months to September 2018, New Zealand wine exports remained flat (+0.4%) in total volume. Value for the period was up by a modest 2% in local currency terms, driven by a lift in the average value per litre. Despite a slight reduction in packaged-goods volumes, the overall value here increased by around 3%, with a slight increase in value per litre.

US import trends

US wine imports rose 7% in value, but declined by 3% in volume during the first nine months of 2018, compared to the same period in 2017 (see Table 2). In volume terms, a 14% decline in bulk wine and a 4% contraction in bottled table wines were only partially offset by higher imports of sparkling wines (+9%), wine-based mixes such as sangria and coolers (+15%), and vermouth (+21%). The increase in value terms reflects higher average prices per liter for all categories except for sparkling wines (unchanged).

From a geographic perspective, volumes imported from Italy, France, New Zealand, and Portugal increased. Imports from Chile, Germany, Argentina, South Africa, Spain, and Australia declined.

For the nine months to September 2018, imports from Italy rose 2% in volume and 10% in value, with higher average prices for all products. In value terms, all relevant wine categories saw double-digit increases, except for bottled table wine, which rose by 4%. By volume, imported bottled table wines were down by 3% and bulk wines by 1%. Volumes of imported vermouth, sparkling wine, and still wines over 14% ABV increased by 31%, 15%, and 14%, respectively.

Imports from France rose 9% by volume and 16% by value. Imports of bottled table wines, the largest category, increased by 9% in volume and 20% in value. Sparkling wine imports increased by 1% in volume and 2% in value. Imports from France benefited from the appetite for rosé wines in the US market.

Import volumes from Spain declined by 10% in volume terms, and only imports of Spanish sparkling wines increased in the period (+5%). In value terms, imports increased by 4%, with average import prices increasing for all categories.

Imports from Australia declined by 17% in volume and 16% in value. Bottled wine imports declined by 12% in volume and 16% in value, maintaining the trend of the first six months. Imports of bulk wine were down by 22% in volume and 11% in value.

For the nine months to September, imports from New Zealand rose by 3% in volume and 4% in value. This means that in Q3 alone, volumes contracted for both bottled and bulk wine imports when compared to the same period of the previous year.

In the January to September period, Chile saw sales to the US decline by 12% in volume and 11% in value, with declines in shipments of both bottled (-9%) and bulk wines (-15%). In USD terms, the average price per litre increased for bulk wine, but declined moderately for bottled wines.

Table 2: US imports by country of origin, Jan-Sep 2018

	<i>Value (USD million)</i>	<i>Change (%)</i>	<i>Volume (thousand cases)</i>	<i>Change (%)</i>
Italy	1,530.3	10	29,408.7	2
France	1,546.5	16	14,953.9	9
Spain	287.6	4	6,960.3	-10

Australia	248.2	-16	12,240.4	-17
New Zealand	330.8	4	6,004.0	3
Chile	184.2	-11	9,907.0	-12
Argentina	211.2	-9	4,904.2	-17
Portugal	78.8	13	1,661.6	6
World total	4,792.7	7	103,705.8	-3

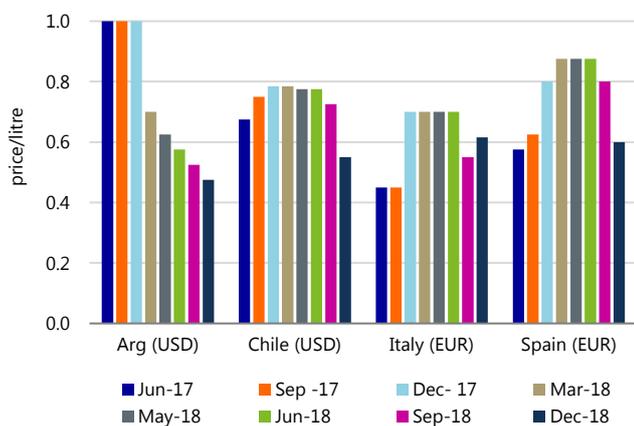
Source: Gomberg-Fredrikson Report, Rabobank 2019

Bulk wine pricing

Bulk wine prices at the end of the year started to reflect the impact of the large 2018 crop in Europe, with prices for Spanish and Italian wines showing the most relevant contractions. Prices of Argentine bulk wines – quoted in USD – reflect the prevailing weakness of the currency, in addition to the increase in the size of the harvest (see Figure 3).

In Australia, average prices in local currency remained stable, despite global trends, due to a favourable currency exchange and strong demand from China (see Figure 3 and Currency Outlook below). Although it's still early, expectations are for an average 2019 vintage somewhere in the vicinity of 1.7m tonnes, with demand remaining solid. However, global market dynamics may yet result in prices easing in the coming months.

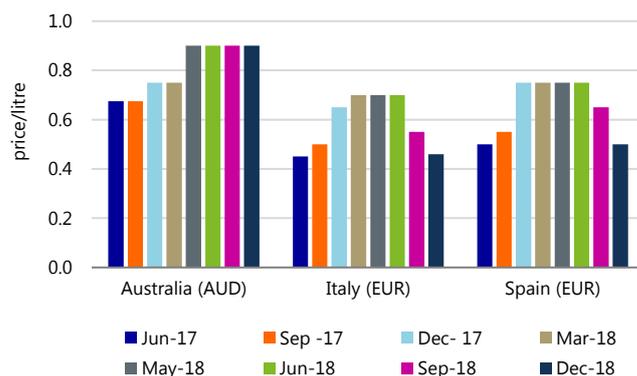
Figure 3: Prices for generic red bulk wine by country of origin and currency, Jun 2017-Dec 2018



Source: Ciatti Company, Rabobank 2019

In Europe, the 2018 harvest saw volumes above the respective five year averages in France, Spain, and Italy, although with differences in quality. As a result, entry price is going down in many cases, but prices for certain varietals and qualities are holding well.

Figure 4: Prices for generic white bulk wine by country of origin and currency, Jun 2017-Dec 2018



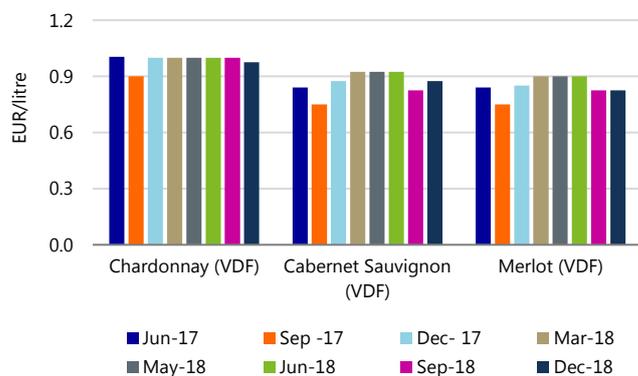
Source: Ciatti Company, Rabobank 2019

In Spain, the large crop has triggered a sharp reduction in prices for all internationally traded varietals and generic wines. As a result of the aggressive pricing in the last weeks of the year, traded volumes have been relatively large for the products already available. By now, it is likely that prices fully reflect the large harvest.

In Italy, the larger availability has also triggered a contraction in prices, in particular for generic wines. However, purchasing volumes seem to be relatively low, as buyers don't feel the urge to stock up. Differences in quality are also reflected in prices.

Prices of bulk wine in France (see Figure 5) have also contracted in the last months, but are holding better than in Italy or Spain, as they are more focused on specific varietals than on generic wines. In addition, availability of quality wines increased less than total production, encouraging a greater price differentiation.

Figure 5: Prices for French bulk wine by varietal, Jun 2017-Dec 2018

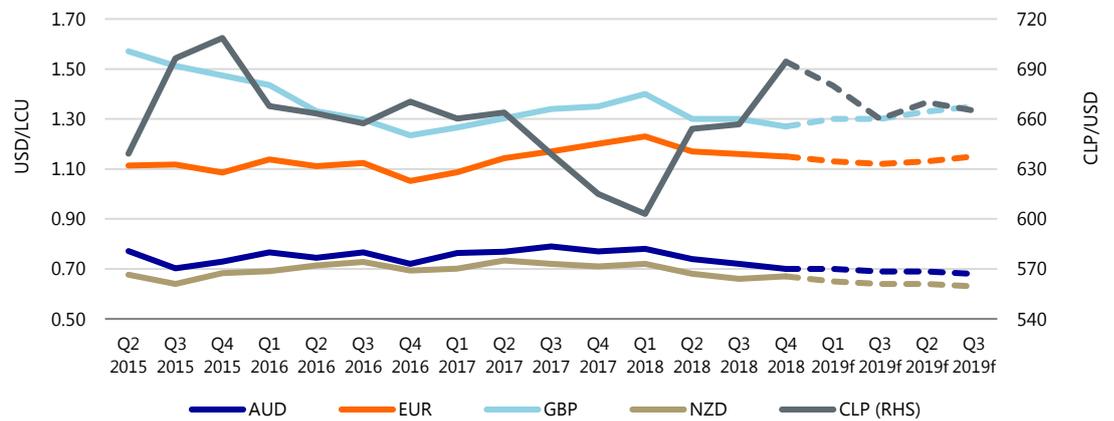


Source: Ciatti Company, Rabobank 2019

Currency outlook

By the end of 2018, the US dollar's uptrend started to wane. Since the spring of last year, Trump's fiscal giveaways had boosted growth and supported expectations of progressive policy tightening by the Federal Reserve. During December, however, the market turned its focus to the risks of slowing growth in the US and the possibility of a technical recession in 2020. That said, while US dollar fundamentals have soured, so too have those of many other economies. This has meant that the US dollar's fall has been limited vs. many currencies. A spate of weaker-than-expected German data has shown that Europe's largest economy hardly grew in the second half of last year. This has triggered speculation that the ECB will be forced to keep policy conditions accommodative over the coming year or so. The outlook for the Australian dollar is being weighed by concerns about slower Chinese growth, a softening domestic housing market, and an increase in speculation that the RBA may cut interest rates in the foreseeable future. USD/ARS has stabilised amid signs that inflation in Argentina has started to moderate from very lofty levels. However, economic difficulties persist. The Chilean peso has won back some ground vs. the US dollar since the start of the year on expectations of further central bank rate policy tightening. GBP/USD has also recovered some ground, but the focus is very much on UK politics (see Figure 6).

Figure 6: Wine currency movements and forecasts, Q2 2015-Q1 2019f



Source: Bloomberg, Rabobank 2019

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