

Growing the consumption of wine amongst emerging market consumers in South Africa

Mary-Lyn Foxcroft

Assignment submitted in partial fulfilment for the Cape Wine Master Diploma

January 2009

Abstract

South Africa is currently not considered a wine drinking nation. It's consumption per capita is low, especially for a wine producing country. The substantial growth of wine exports since 1994 has provided an outlet for producers who no longer need to rely solely on the waning interest of the domestic market. As a result, there has been little effort in the past decade by the industry to develop the domestic market which has in part resulted in a decline in consumption of wine per capita.

When considering the improved socio-economic status of the nation due to steadily growing GDP and the growth of the middle class - who are status and lifestyle oriented - one must conclude that South Africa is ripe for an increase in wine consumption. The main issue lies with the fact that the majority of South Africans choose not to drink wine, partly as a result of minimal exposure to wine in comparison with beer, the ready-to-drink category, and brandy. Efforts to drive domestic consumption of wine would therefore need to rely on competing with these alcoholic beverages.

The emerging wine consumer also presents many challenges to the industry. In order to address these challenges, the wine industry requires a strategy surrounding growing domestic wine consumption. A collective effort within the wine community is required to set common goals, establish an industry structure to drive interventions and measure progress. A township distribution infrastructure should also be established to ensure the regular delivery of wine of a consistent quality to the township market.

The potential of the South African domestic market lies essentially untapped. It will require significant effort and intervention by the entire wine community to band together to find ways of capturing the appeal of the emerging wine consumer. At the heart of the challenge though is the desire to do so for the greater good of the industry.

Acknowledgements

I wish to express my thanks to all the industry stakeholders who kindly agreed to being interviewed and who provided valuable insight into the South African wine industry and consumer market. These include: Desmond Seoposengwe and Kobus Visser from Distell, Mnikelo Mangciphu from Morara Wines, André Morgenthal from WOSA, Eion du Toit, Jacques Roux from DGB, Phillip Retief of Van Loveren, Greg Rietoff from Somerset Beverages, Trevor Pocock from Liquid Assets, Caryn White from Wine Logistics and Liz Budd from Cape Wine Selections. Particular thanks must also go to Vivienne Quann from Hot Salsa Media who kindly made available material and research on the Soweto Wine Festival and the Black Diamond segment.

Thanks are also due to my fellow CWM students from the Wild Yeasts Club who have encouraged me throughout my CWM experience. I'd like to particularly thank my partner Wayne and friend Mariana for reading the initial drafts of this paper. Wayne's unfailing support of all my 'projects' is gratefully acknowledged and much appreciated.

Contents

Abstract.....	ii
Acknowledgements.....	iii
Contents.....	iv
List of Tables.....	vi
List of Figures.....	vii
1. Introduction	1
1.1 Scope and contribution.....	2
1.2 Overview of document	3
2. Wine consumption – factors and trends.....	4
2.1 Factors playing a role in the consumption of wine.....	4
2.2 Global wine consumption.....	5
2.3 South African wine consumption trends	11
2.4 Summary of worldwide consumption trends	13
3. Country analysis	14
3.1 Australia.....	14
3.2 Russia.....	17
3.3 India	19
3.4 China.....	22
3.5 Summary of the country analysis.....	25
4. Profile of the South African consumer	26
4.1 The South African consumer market	26
4.2 Consumption expenditure.....	29
4.3 Alcohol consumption among South African consumers	30
4.4 The Black Middle Class.....	32
4.5 Future expectations for the Domestic market	34
4.6 Factors relied upon to increase consumption in South Africa	36
4.7 Summary of the Profile of the South African consumer	37
5. Current initiatives to increase consumption of wine in South Africa	38
5.1 Producer and Distributor interventions.....	38
5.2 ‘Accidental’ Success in the Black market	41
5.3 Soweto Wine Festival.....	43
5.4 Industry body to drive domestic consumption.....	44
5.5 Summary of interventions to increase domestic consumption.....	46
6 Recommendations for future initiatives and intervention	47

6.1	Recommendations	47
6.2	Summary of future initiatives and interventions.....	51
7.	Summary and conclusions	52
	References	54

List of Tables

Table 1: Percentage growth in global wine consumption	7
Table 2: Top wine consuming countries per capita	8
Table 3: Difference between wine production and consumption of the main producer countries (in thousands of hl).....	9
Table 4: Factors influencing the growth of wine consumption in Russia	18
Table 5: Average monthly household income.....	28
Table 6: Composition of consumption expenditure categories by population group	29
Table 7: Percentage of adults in LSM groups consuming Table wine	31
Table 8: Summary of Black Diamond segmentation	33
Table 9: Percentage growth of exported wine.....	35
Table 10: Projected future growth rate of domestic consumption.....	36
Table 11: Estimates by population group and gender, 2008	36
Table 12: Estimated annual population growth rates, 2001 – 2008	37
Table 13: Examples of actions to be taken by the wine industry.....	48

List of Figures

Figure 1: Global Wine consumption	6
Figure 2: Consumption of wine of the 11 leading countries (Forecast for 2007).....	7
Figure 3: Volume of wine consumed (1991– 2007) in litres.....	11
Figure 4: South African wine consumption per capita (1997 – 2007)	12
Figure 5: South African wine consumption per capita per category (1997 – 2007).....	12
Figure 6: Percentage of consumers split into LSM Groups	27
Figure 7: LSM Profile change from 2001 to 2008.....	28
Figure 8: Percentage of Adults consuming alcohol over a period of 7 days	30
Figure 9: National trend of adults purchasing / using alcoholic beverages.....	31
Figure 10: Future outcomes for wine production, producer sales and domestic consumption	35

1. Introduction

In an analysis of the status of the South African wine industry, Loubser (2004) states that the wine industry is substantial from economic, social and lifestyle perspectives. This is best described in financial terms where the production of wine contributed over R 3 075 million to state revenue in 2006, up from R 1 612 million a decade earlier (SAWIS, 2006). Loubser (2004) declares that South Africa is a meaningful competitor in the global wine market, having made excellent progress in exports since 1994 – to the extent that South Africa is now considered a predominantly export country (OIV, 2007).

The industry's gradual shift in focus to export markets was predominantly in response to a combination of lifting of sanctions and weak domestic demand, given that South Africa is not a wine drinking nation and lacks a culture of drinking wine. As a result of this, there has been little effort by the industry to develop the domestic market in the past decade which has resulted in consumption trends falling even further. Despite this, recent wine image building and marketing initiatives have principally focused on traditional wine drinking segments in urban areas. As such, the black market is a considerable opportunity for the wine industry but requires market research, brand positioning and promotion.

On a global level the wine industry's largest wine producing countries are experiencing a per capita decrease in wine consumption due to a variety of factors such as health concerns, a younger generation that consumes less than their forefathers, and a change in the lifestyle status of wine (Lunardo & Guerinet, 2007). This decline in consumption is being offset by consumption increases elsewhere and growing consumer preferences for higher quality wines (Wittwer & Rothfield, 2005).

According to Heijbroek (2007) factors that impact competitiveness in the wine industry are:

- Basic production factors which are always present and directly influence cost price - these include raw materials, climate, unskilled labour and capital.
- High-grade production factors - these include factors that are critical for quality and efficiency and are dependent upon human effort. They include infrastructure, skilled labour, research, education, information, and communications.
- Industry structure - this relates to the relative size of the producers and distributors and the level of consolidation or fragmentation of the industry. It can also include the extent to which the various actors in the chain utilise each other to achieve an effective approach to the market.
- Marketing, branding, and style - these include the development and impact of modern brands and individual styles of wine.
- Domestic demand - the nature, scope and development of the domestic market have great influence on the strength of an industry. A critical domestic market strengthens competitiveness, keeps the sector alert and lays the foundation for a high level of innovation.
- Government authorities - Governments may support or curb competitiveness.

- Economic variables - this includes entrepreneurial spirit, international orientation, ability to co-operate, management culture, etc. The strength of an industry can be affected by unpredictable factors such as changes in exchange rates and political decisions. The entrepreneurial spirit determines whether there is the drive to respond rapidly to such opportunities and challenges.

Grading South Africa on the factors listed by Heijbroek (2007) quickly isolates the areas requiring improvement. They relate to industry structure, domestic demand, and economic variables. The South African industry structure is fragmented and fraught with competition, which in itself is desirable, however results in a lack of *overall* trust and co-operation in driving industry-led initiatives. Regarding domestic demand, South Africa has a declining domestic demand and lacks the presence of an association or organisation whose sole purpose it is to stimulate domestic demand to ensure the wine industry's future. In terms of economic variables, exchange rate risk and the implications of political decisions made by a (relatively) new ruling power are challenges for South Africa. Furthermore, the poor co-operation referred to above must surely make it difficult for the wine industry to respond to opportunities such as those presenting themselves in the emerging wine consumer market. The interaction of the three factors requiring improvement for advancement in the competitiveness of the South African wine industry is also worth reflection.

1.1 Scope and contribution

The objective of this report is to outline global wine consumption trends and the factors influencing these trends from a review of the literature, drawing attention to those countries experiencing substantial growth in consumption. Within this context, South Africa's position in world rankings is considered along with the reasons behind South Africa's low per capita consumption of wine. A further aim of the report is to present the opinion of wine industry stakeholders on what can be done to stimulate domestic consumption. Current interventions by the wine industry in South Africa to improve domestic wine consumption are presented and finally, the report aims to make recommendations regarding future initiatives.

This paper will not focus on the many factors responsible for influencing customers' choice of purchase of wine from a psychological, cultural or motivational point of view. As such, all factors associated with buying wine, the price impact on purchasing decision, or perceived impact of label and associated impacts on purchasing behaviour are not part of the scope. While these factors would be interesting to research in most countries including South Africa, it is nevertheless important to step back to identify the reason why South Africans don't purchase wine and attempt to reason what needs to change in order for them to want to sample wine in the first place. A quantitative calculation of an increase in wine consumption per capita and its resultant financial gain for the industry is assumed and therefore out of the scope of this paper.

1.2 Overview of document

The factors influencing consumption are presented in Chapter 2 followed by a review of global wine consumption statistics and the reasons given for those trends. Statistics are also provided for consumption trends in South Africa. Chapter 2 provides the basis and motivation for the topic of this report.

Chapter 3 presents a brief analysis of four countries that were selected based on success achieved in increasing domestic consumption in recent years. Those factors playing an active role in growing consumption of wine in each country are explored as a basis for interventions South Africa may wish to initiate on a local scale. Chapter 4 presents a comprehensive view of the South African consumer including alcohol consumption behaviour trends. It also provides a detailed description of the emerging market wine consumer in South Africa. Chapter 5 discusses the current initiatives and interventions by the wine industry to increase domestic consumption of wine and draws on the opinions and perspectives of wine industry stakeholders with whom interviews were conducted. In Chapter 6 conclusions are drawn and recommendations are made for the South African wine industry. The main points made in this report are once again reviewed and summarised in Chapter 7.

2. Wine consumption – factors and trends

The essence of consumer consumption can be split into two major influencing factors, namely the *decision* whether or not to drink *wine* (as opposed to other alcoholic and non-alcoholic drinks); and the *frequency* of consuming wine. The first factor takes into consideration the fact that wine competes in the same space with other alcoholic drinks such as beer, spirits, cider, and RTD's (ready-to-drink) amongst others. In the case of South Africa, where it is estimated that 63% of all South Africans have never consumed wine (Loubser, 2004), alcohol consumption statistics show that most South Africans do not choose wine as their alcoholic beverage of choice. The second factor, *frequency of consumption*, relates to issues of a social and economic nature and takes for granted that wine is the choice of beverage. This paper will therefore focus primarily on the factors contributing to the decision whether or not to drink wine rather than the frequency of consuming wine.

Annual consumption of liquor in South Africa reached 164 million litres per annum in 2007 (ABR, 2007) with the value of this market is estimated at R32.7 billion. The liquor market is growing, with an 18 percent growth recorded between 2006 and 2007 (ABR, 2007). Beer makes up over 76% of the volume of on and off consumption sales of alcoholic beverages in the Southern African Customs Union (South Africa, Namibia, Botswana, Lesotho and Swaziland) whereas only 9% relates to wine sales (ABR, 2007). Nevertheless, wine is the third highest in volume sold, after beer and RTD's (ready to drink category). RTD is a category that has experienced spectacular growth over the past few years, the latest increase being growth of 24% from 2006 to 2007. Nevertheless, the statistics clearly point to the fact that South Africa is currently a nation of beer drinkers.

While the whole liquor category in South Africa is growing at present, it is well documented that countries do experience a shift in alcohol consumption across liquor categories. The implication of these statistics for the wine industry is that wine needs to compete more actively against the other categories of alcohol, particularly beer and RTD's. Competition relies on substantial marketing spend and a ranking of the top 40 brands by advertising spend in 2007 shows that the first *wine* brand – Nederburg - only made it to 12th position, with the second wine brand (JC Le Roux) at 36th position (ABR, 2007). These were the only two wine brands in the ranking.

This chapter discusses the various factors that play a role in the consumption of wine in a country. Global statistics regarding wine consumption are then presented followed by a review of South African consumption trends. The chapter closes with a brief explanation of the reasons suggested for global wine consumption trends.

2.1 Factors playing a role in the consumption of wine

There are many factors that play a role in the consumption of wine and it is often the unique *combination* of factors rather than individual factors which have the biggest impact. The major factors pertaining to wine consumption are:

- Political / Government – Legislation shapes the liquor industry by controlling the manufacture, supply, and distribution of wine. Licensing of the wine product as well as that of premises authorised to sell wine influence the accessibility of wine. Furthermore, a country regulates imports and exports by imposing duties and taxes, which influences prices and therefore to some degree influences the volume of wine sold. More far reaching interventions by government can ban alcohol in its entirety as demonstrated in the world of Islam and by the Prohibition in the USA between 1920 and 1933. Legislation also determines the alcohol content of wines in every country which ultimately has an impact on consumer behaviour.
- Economic – The level of real GDP has been shown to have a significant influence on consumption of wine (Customs Associates Limited, 2001). Furthermore, the generation of wealth within society from good government economic policy benefits wine producers and marketers. The main findings and implications of research conducted in Australia indicate that the expenditure elasticity for wine is greater than unity. This implies that as total expenditure on alcohol increases (which is to be expected as income grows), wine consumption will also increase (Chang, Griffith, & Bettington, 2002).
- Marketing – The influence of elements of marketing on consumption trends is well documented and has led to an industry of merchandisers and advertisers. The perceived impact of wine labels on consumer purchasing behaviour is also evident (Lunardo & Guerinet, 2007).
- Social – The status of a number of social factors in countries influence consumption, including: the number of people of wine drinking age, social status, age (for example young people drink less wine than older people in France), unemployment rate, and consumer household role structures (Customs Associates Limited, 2001).

2.2 Global wine consumption

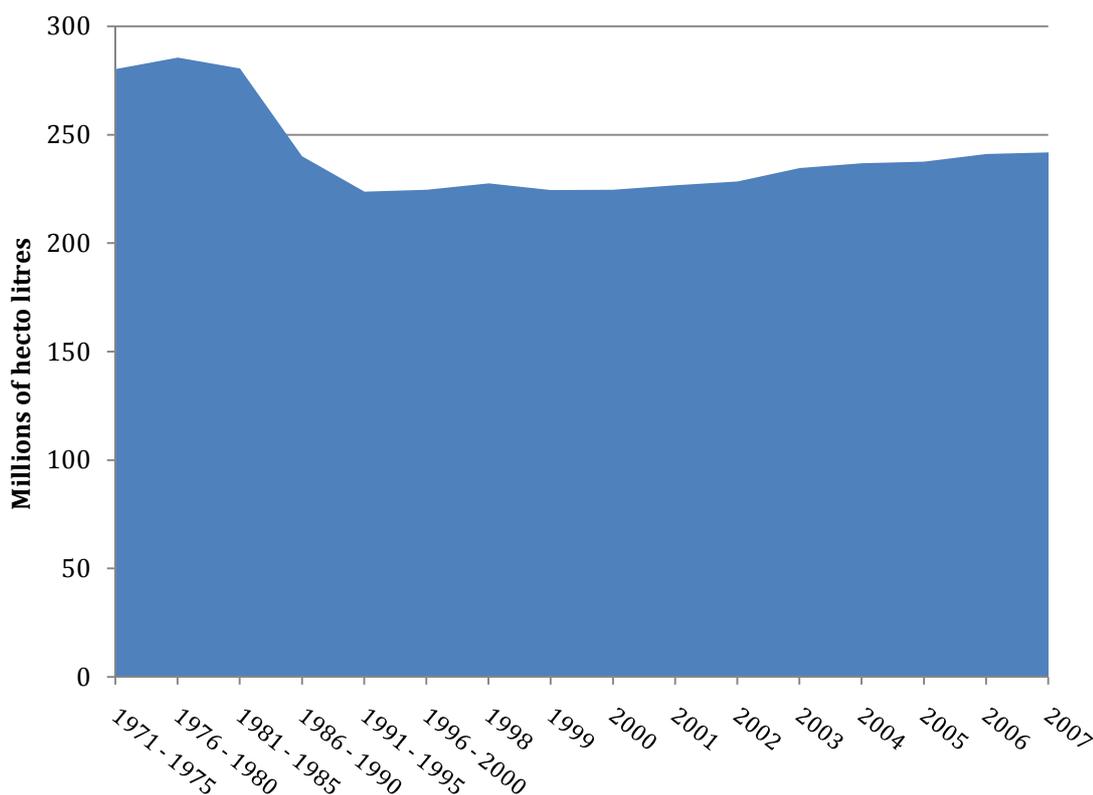
Global wine consumption in the EU decreased by 0.5 percent between 2006 and 2007, however non-EU countries saw an increase of 0.9 percent in the same period (OIV, 2008). Over the last decade though, wine consumption has grown 10 percent by volume but unfortunately is no match for the 35 percent growth the beer market has experienced since 1997 (Wine Spectator, 2008).

Global trends in wine consumption the world over indicate that wine consumption in traditionally wine producing and consuming countries, in France, Italy and Spain in Europe and Argentina in South America, has been declining over the past four decades. Standing out against this trend are China and other developing nations as well as more mature markets including the USA, Canada, Australia (a traditionally beer drinking country) and Chile who have enjoyed more steady growth in wine consumption (OIV, 2008). Nevertheless, the projection for annual growth in the volume of wine consumed until the end of this decade is approximately 0.4 percent each year (Wine Spectator, 2008).

As an indication of the remarkable shift in trends, research indicates that in 1985 Italy and France accounted for 40 percent of world consumption whereas in 2007 this figure dropped to 24.4 percent (OIV, 2008). In the same period, it appears that Germany, the USA and the UK increased consumption of wine from 14.8 percent of world consumption in 1985 to 24,3 percent in 2007. The literature and media publications also claim that within the next few years the USA will surpass France to become the largest wine market in the world by volume, although it has a long way to go to attain similar per capita consumption statistics as France (Economist.com, 2009).

World wine consumption slowed from 1980 to the late 1990s. From the new millennium onwards this trend began to reverse. World consumption stopped declining and slowly started to rise as illustrated in Figure 1 below. While growth in percentage terms is overall quite low this decade (see Table 1), the OIV reports that 2007 saw a 0.33 percent rise in global wine consumption over 2006, following a larger 1.47 percent rise between 2005 and 2006. Worldwide wine consumption grew to 242 million hectolitres in 2007 (OIV, 2008).

Figure 1: Global Wine consumption



Source: Organisation Internationale de la Vigne et du Vin (O.I.V.), October 2008 (data for 06-07 provisional)

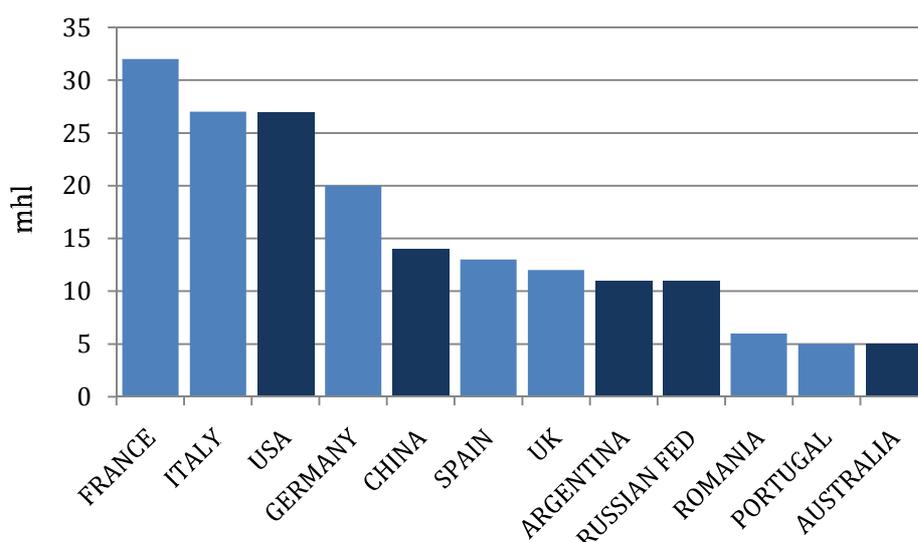
Table 1: Percentage growth in global wine consumption

Year	Percent growth
2000	0.06%
2001	0.92%
2002	0.75%
2003	2.70%
2004	0.95%
2005	0.31%
2006	1.47%
2007	0.33%

Source: Organisation Internationale de la Vigne et du Vin (O.I.V.), October 2008

Europe, with 126 mhl of wine consumed, is the leading wine consumer continent, consuming 53% of world wine in 2007 (OIV, 2008). The ranking of top wine consuming countries as shown in Figure 2 indicates that European countries (highlighted in light blue in Figure 2) take up six of the top ten positions. Europe's share of the world's wine consumption is declining however, given that they consumed 73.8% of world wine in the 1980's (OIV, 2008). Some notable rises in the volume of wine consumed in Europe include the United Kingdom, up 3.4% between 2006 and 2007, as well as Germany which saw a growth of 1.6% in the same period. What is interesting to note are the five non-European countries featuring in Figure 2. The USA is now considered to be the third largest wine consuming nation and, as mentioned above, is purported to overtake France and Italy by 2012. China and the Russian Federation are more recent nations to appear in this figure and are considered a world consumption growth pole. As wine consumption per capita grows in these countries, they are likely to usurp some of the EU countries.

Figure 2: Consumption of wine of the 11 leading countries (Forecast for 2007)



Source: Organisation Internationale de la Vigne et du Vin (O.I.V.), presentation on 16 June 2008.

A word of caution is expressed by the OIV regarding the levels of consumption in China since the assessment of wine consumption in that country includes grape based fermented and brandy products which elsewhere would not be considered as wine in the strictest sense. Despite these biases, however, the apparent consumption of wine in China *has* grown substantially since in 1995.

Logically, high levels of consumption are found in those countries which are traditionally wine producers. Table 2 records the top rankings of countries according to wine consumed per capita. South Africa is a notable exception to wine producing countries which have high consumption levels. South Africa ranks ninth overall in global wine production, however ranks well below twentieth in wine consumption per capita (OIV, 2006; Wine Institute of California, 2005). Luxembourg, while in the lead at 55.91 litres of wine per capita, may have skewed results since purchases by non-Luxembourg consumers have a major impact on their recorded per capita results. In general, however, those countries that are major global producers and consumers have been observed to be undergoing a structural trend decline in their individual levels of consumption. This is particularly relevant to the Old World countries of France, Italy, Portugal, Spain and Greece, and certain New World countries such as Argentina and Chile.

Other countries which are traditionally high-level producers and consumers of wine as well as of other alcoholic drinks, such as Germany, Austria, Switzerland, Hungary and Croatia, have seen stabilisation or minimal growth in per capita consumption. Among the producer countries of the New World, recent increases in production of wine has not necessarily influenced consumption, where development is slow.

Table 2: Top wine consuming countries per capita

Country	Consumption of wine in Litres per capita						
	2002	2003	2004	2005	2006 Prov.	2007 Forecast	
Luxembourg	63.4	55.8	57.3	54.62	55.27	55.91	decreasing
France	58.2	56.7	54.8	55.42	54.55	53.17	decreasing
Italy	48.2	51.1	49.3	46.5	47.05	46.31	stable
Portugal	46.3	52.6	47.9	46.69	45.67	44.78	decreasing
Slovenia	30.2	44.4	44.4	44.74	44.74	44.74	stable
Croatia	45.9	39.5	42	40.78	40.78	40.78	decreasing
Switzerland	42	41.4	40.9	39.29	38.21	34.54	decreasing
Spain	34.1	33.6	33.8	31.78	31.38	30.82	decreasing
Hungary	34.8	31.6	31.3	34.66	34.66	34.66	stable

Source: Organisation Internationale de la Vigne et du Vin (O.I.V.), presentation on 16 June 2008.

With regard to the largest producer countries, it is interesting to note the evolution of the difference between total wine production and domestic consumption of wine. The OIV splits producer countries into three groups according to the combination of production and consumption trends as shown in Table 3.

Table 3: Difference between wine production and consumption of the main producer countries (in thousands of hl)

			1986-1990	1991-1995	1996-2000	1997	1998	1999	2000	2001	2002	2003	2004	2005
Category 1	USA	Prod.	18 167	17 619	20 386	22 000	20 504	19 050	21 500	19 200	20 300	20 770	20 109	22 888
		Cons.	20 791	18 759	20 814	20 800	20 748	20 858	21 200	21 250	22 538	23 801	24 308	25 110
		% Diff.	-14%	-6%	-2%	5%	-1%	-9%	1%	-11%	-11%	-15%	-21%	-10%
	China	Prod.	2 734	5 140	9 581	9 000	10 645	10 261	10 500	10 800	11 200	11 600	11 700	12 000
		Cons.	2739	5098	9858	9 320	11 023	10 633	10 791	11 054	11 470	11 586	13 286	13 500
		% Diff.	0%	1%	-3%	-4%	-4%	-4%	-3%	-2%	-2%	0%	-14%	-13%
	Argentina	Prod.	19 914	15588	13456	13 500	12 673	15 888	12 537	15 835	12 695	13 225	15 464	15 222
		Cons.	17 804	15720	12899	13 390	12 683	12 567	12 491	12 036	11 988	12 338	11 113	10 972
		% Diff.	11%	-1%	4%	1%	0%	21%	0%	24%	7%	7%	28%	28%
Category 2	France	Prod.	64 641	52 886	56271	53561	52671	60535	57541	53389	50353	46360	57386	52105
		Cons.	41 715	37 310	35 305	35 500	36 330	35 400	34 500	33 919	34 820	33 340	33 141	33530
		% Diff.	35%	29%	37%	34%	31%	42%	40%	36%	31%	28%	42%	36%
	Italy	Prod.	65715	60768	54386	50894	54188	56454	51620	52293	44604	44086	53000	54021
		Cons.	36621	35122	31950	30855	31840	31563	30800	30150	27709	29343	28300	27016
		% Diff.	44%	42%	41%	39%	41%	44%	40%	42%	38%	33%	47%	50%
Category 3	SA	Prod.	7 742	8 228	7 837	8 115	7 703	7 968	6 949	6 471	7 189	8 853	9 279	8 406
		Cons.	3 359	3 651	3 961	4 022	3 867	3 953	3 906	3 972	3 884	3 487	3 509	3 450
		% Diff.	57%	56%	49%	50%	50%	50%	44%	39%	46%	61%	62%	59%
	Spain	Prod.	33 519	26 438	34 162	33 218	31 175	33 723	41 692	30 500	33 478	42 802	42 988	36 158
		Cons.	17 402	15 439	14 427	14 589	14 793	14 249	14 046	14 238	13 960	13 798	13 898	13 686
		% Diff.	48%	42%	58%	56%	53%	58%	66%	53%	58%	68%	68%	62%
	Australia	Prod.	4285	4810	7 380	6 174	7 415	8 511	8 064	10 347	11 509	10 194	13 811	14 301
		Cons.	3297	3208	3606	3 472	3 644	3 726	3 899	3 976	4 007	4 196	4 361	4 523
		% Diff.	23%	33%	51%	44%	51%	56%	52%	62%	65%	59%	68%	68%
Chile	Prod.	4 135	3 326	5 066	4 549	5 475	4 807	6 674	5 658	5 623	6 682	6 301	7 886	
	Cons.	3499	2350	2410	1 922	2 713	2 853	2 271	2 250	2 297	2 552	2 547	2 644	
	% Diff.	15%	29%	52%	58%	50%	41%	66%	60%	59%	62%	60%	66%	

Source: Situation Report and Statistics for the World Viti-vinicultural Sector in 2008, OIV.

In Table 3, the first category includes countries in which the levels of production and consumption are close, i.e. the difference in production and consumption is between -13% and 28%. This includes the USA, China and Argentina with the two leading countries (USA and China) at odds in their degree of openness to world markets. The USA is open to world market and is the third largest importer and 6th largest exporter of wines in the world. In contrast, China is largely self-sufficient as a country but relatively closed to world markets; although this status is gradually changing as legislation reform leads to growth of imported wine. Argentina was still regarded part of this category in 2005, despite exporting a substantial proportion of its production in the form of musts and juice and that its favourable exchange rate should lead to further increases in wine exports.

The second category is net export countries that have declining domestic markets which nevertheless remain a major outlet, i.e. the difference in production and consumption is between 36% and 50% in 2005. France and Italy are evidently in this category.

The third category comprises predominately export countries, i.e. the difference in production and consumption was over 59% in 2005. South Africa which was on the border of this category from the end of the 1990s has clearly joined this group more recently, along with Spain, despite the fact that in South Africa a considerable amount of the difference between production and consumption is transformed locally into spirits and that a substantial part of this amount is consumed. This is also the case for Australia and Chile.

In summary, world production potential is evolving rapidly which is attributed to increased plantings, good climatic conditions, advances in technology, improvements in viti- and viniculture practices and innovation. In comparison, world consumption is growing at a much slower rate.

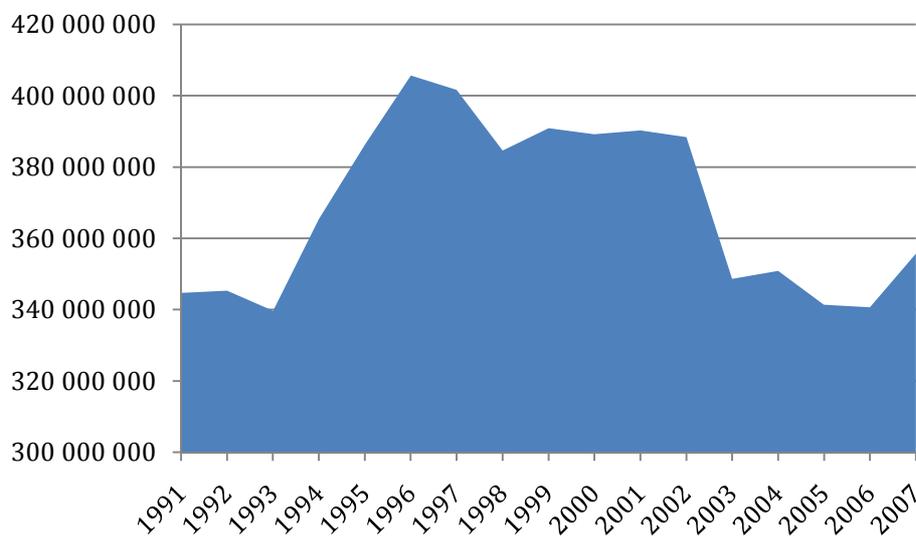
The declining consumption trends pertaining to most of Europe that were presented and discussed above can in part be attributed to a few key reasons. The first and main reason is the changing status of wine - having evolved from habitual consumption to rather being associated with pleasure (Lunardo & Guerinnet, 2007). Health concerns have also played a role in declining wine consumption despite red wine being marketed as beneficial to health in moderate volumes. This has resulted in people drinking less frequently which has inadvertently led to people drinking better quality wine. The ageing European population also impacts on consumption. Traditional meal drinking, frequent wine consumers are being replaced by a younger generation of less liberal consumption. Younger consumers have also been found to be less likely to select wine as their beverage of choice given the widening variety of drinks such as RTD's (ready-to-drink beverages) available in the market (Lunardo & Guerinnet, 2007).

These trends have taken decades to shift and given the complexity of factors influencing consumption as presented earlier in this chapter, it is likely that future consumption will drop even further in Europe before stabilising. On a positive note, consumption trends in 'non-traditional' wine-drinking nations in the rest of the world (USA, Russia and China) seem to be compensating for this trend.

2.3 South African wine consumption trends

South Africa consumed 355 million litres of wine in 2007, a 4.4% increase over the previous year and the highest increase in consumption for well over a decade (SAWIS, 2008). Trends as shown in Figure 3 below indicate that the volume of wine consumed in South Africa was largely static between 2003 and 2006 following a 10% drop from 2002 to 2003. Figure 3 shows that the largest growth in consumption by volume occurred between 1992 and 1997 in the early post-apartheid era, however those gains were not maintained by the market and there has been firstly a gradual decline in the late 1990's followed by a more rapid decline since 2001. The recent upward trend in 2007 is a positive sign for the industry.

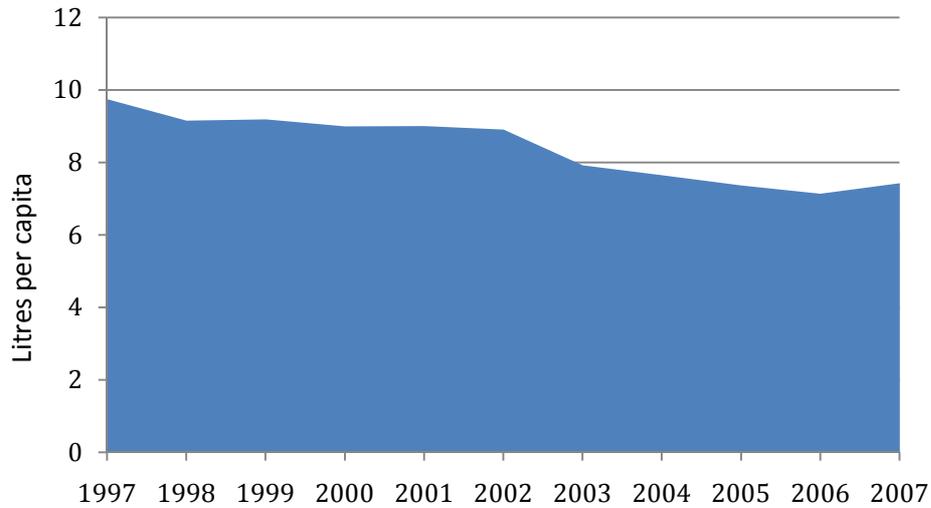
Figure 3: Volume of wine consumed (1991– 2007) in litres



Source: SAWIS Annual Report, 2008

South Africa's consumption of wine per capita, as shown in Figure 4, has to some extent mimicked the decline in total wine volume consumed. Unfortunately though, the per capita trends have been on a downward trend since 1997, dropping from 9.75 litres per capita in 1997 to 7.29 litres per capita in 2006, however there has been a recent small increase in consumption in the past year which bodes well for the future. Overall these trends coincide with global trends of declining consumption although the reasons for this decline may differ markedly from those factors held accountable for declining consumption in the rest of the world.

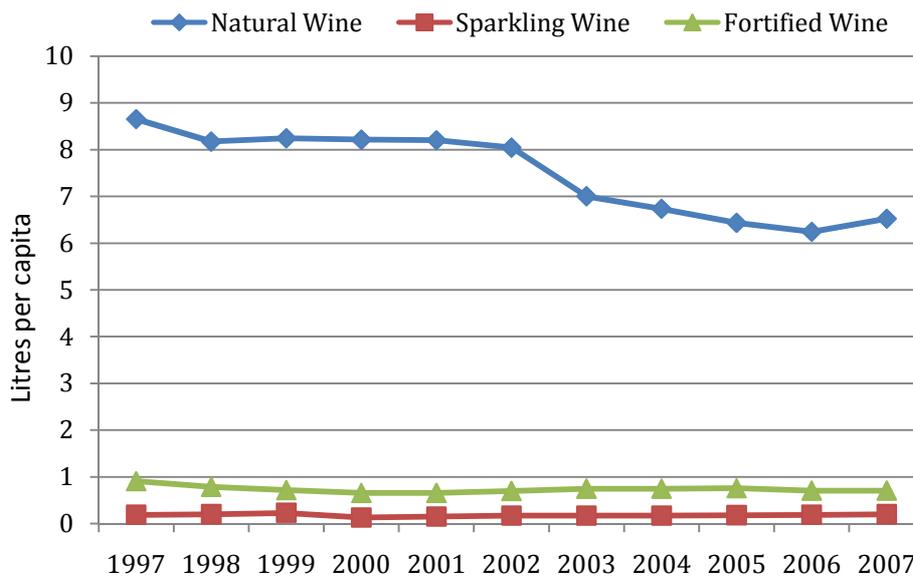
Figure 4: South African wine consumption per capita (1997 – 2007)



Source: SAWIS Annual Report, 2008

Figure 5 indicates that natural wine and fortified wine took the major share of the declining consumption in South Africa from 1997 to 2006, whereas sparkling wine consumption declined marginally after the millenium but has started to grow incrementally off a low base since then. Despite sparkling wines gain in overall consumption of wine, it nevertheless only makes up about 3% of total consumption, resulting in the consumption gain being insignificant. It is evident from Figure 5 that in the past year natural wine has seen a reversing of trends with a 4.5% growth in consumption.

Figure 5: South African wine consumption per capita per category (1997 – 2007)



Source: SAWIS Annual Report, 2008

Total South African natural wine sales for the 12 months to January 2008 was 631 million litres with 316 million litres making up the export volume and 314 million litres the domestic sales volume. The growth in domestic sales represents a 5.31% increase over the previous year's volume with export growth achieving 15.3% clearly indicating that our sales growth is driven by exports rather than by domestic consumption (SAWIS, 2008).

2.4 Summary of worldwide consumption trends

In this chapter the factors influencing consumption were presented followed by a review of global wine consumption trends by volume and per capita. Some reasons for the decline in consumption in Europe were also noted. The chapter concluded with the presentation of consumption trends relating to South Africa.

3. Country analysis

The latest report by the Global Industry Analysts (2008) states that developing countries like Russia, China, Australia and India are expected to drive future growth in the wine market. It appears that changing lifestyles in these countries, which mostly mimic Western lifestyles, is proving to be a major advantage for the growth in wine consumption. As such, it is expected that Asia-Pacific will emerge as the fastest growing region for wine consumption by 2010.

Wine consumption rates as discussed in Chapter 2 show that some countries around the world are currently or have recently experienced substantial growth. In an attempt to determine what factors or interventions could sustainably increase wine consumption in South Africa, a brief analysis of four countries was conducted, namely Australia, Russia, India and China. Whilst each country has its own unique challenges, there are underlying similarities of trends and active attempts to grow domestic wine consumption off a low base. These provide impetus to the recommendations made for interventions South Africa may wish to initiate in the domestic market to increase wine consumption.

3.1 Australia

The wine industry in Australia has undergone dramatic change over the past 30 years. It has grown wine production from 156m litres in 1966 to 978 m litres in 2006-07, seen a dramatic increase in exports and achieved a much coveted increase in domestic wine consumption from 8.9 litres per capita in 1970 to 28.1 litres per capita in 2006 (Australian Bureau of Statistics, 2006; Electronic citation: Australian Dept. of Foreign Affairs and Trade, 2008). In addition, more than 80% of consumption of wine is natural table wine compared to fortified wines making up the majority of consumption in 1966. Sales of imported wine have also been low (less than 5%) due to the variety, quality and value of Australian wine.

In the 2006–2007 period, the Australian domestic market accounted for 36% of total sales of Australian wine by volume, a rise of 3.9% over the previous period (Electronic citation: Australian Dept. of Foreign Affairs and Trade, 2008). Making up this consumption was table wines at 84.9% of local wine consumption, with sparkling wines accounting for 8.8% and fortified wines 3.8%.

Australia experienced a slow, consistent growth period between 2002 and 2005 when wine consumption grew from 26 to 28 litres per capita. More recently, per capita consumption of wine by persons 15 years and older dropped marginally from 28.1 litres per capita in 2005 to 28 litres per capita in 2006 (Electronic citation: Australian Dept. of Foreign Affairs and Trade, 2008) indicating stabilisation of consumption. The relative growth in consumption of wine this decade though has occurred despite a national trend of declining alcohol sales. With slower *volume* expansion however, there has been growth in the *value* of domestic wine sales reflecting a switch from bulk wine to more premium priced wine consumption. This trend of trading up to quality consumption, linked with stronger demand has consequently increased prices and improved margins in the industry.

In the period of 2004-2005, total beer consumption is reported to have dropped from 1.8 billion litres to 1.7 billion (Australian Bureau of Statistics, 2006). In the past decade, Australia has transformed from that of a beer drinking nation and is now considered a highly developed, evolved and mature New World wine drinking nation. What warrants discussion is the rationale behind this growth in production and consumption which has come without government subsidy or trade protection measures. A review of the Australian literature and research since the late 1990's repeatedly points to the role of a *common industry strategy*.

A factor worth noting is that Australia has ten wineries that dominate the industry making up an estimated 84% share of Australia's wine crush despite there being approximately 1000 wineries in total (Electronic citation: Australian Wine Online, July 2008). The same research shows that 6% of the labels on the Australian market account for more than 75% of sales. This indicates that the wine industry structure has considerable economies of scale. This does not, however, negate the noteworthy contribution of small producers to the industry's success in international markets which has been out of all proportion to their size.

The Australian wine industry undertook a strategic planning process in 1995 which is officially known as Strategy 2025. This plan was a "statement of the aspirations and goals the industry hopes to achieve in the next 30 years" (Electronic citation: Strategy 2025, July 2008). The basis of the vision was that by the Year 2025, Australia would have reached \$4.5 billion in annual wine sales by "being the world's most influential and profitable supplier of branded wines, pioneering wine as a universal first choice lifestyle beverage". This strategy focused the efforts of the wine industry on a number of common areas such as:

- Enhancing the image and reputation of Australian wine
- Entrenching innovation as the driver of industry competitive advantage
- Enhancing wine style in quality, purity, uniqueness and diversity
- Establishing global leadership in specific branded market segments
- Capitalising on market growth opportunities by expanding industry capacity
- Extending the scope of industry participation in complementary business sectors.

(Electronic citation: Australian Wine Online, July 2008)

These common focus areas combined with additional factors listed below have all influenced the consumption of wine in Australia:

- changing consumer preferences towards a Mediterranean diet stimulated by European immigration
- an increased incidence of dining out
- a growing concern about health
- establishment of a lifestyle characterised by eating out and entertaining informally (restaurant and café culture) which expanded the occasionality of wine, and
- a series of complex demographic and sociological factors such as the changing role of women and the aging of Australia's population have all contributed.

(Electronic citation: Australian Wine Online, July 2008)

The role of the domestic wine market was considered to be crucial to the long term success of the wine industry and was targeted in the industry's Strategy 2025. The original 2025 goal for domestic wine consumption set out in 1995 was 22 litres per capita, which was already achieved and exceeded in 2004-2005 (OIV, 2006), approximately 20 years earlier than expected. The way in which the original targets were to be achieved was through the following initiatives:

1. Extending the occasionality of consumption by the marginal wine consumer segment
2. Developing consumption in the prospective wine consumer segment
3. Reinforcing community acceptability of wine by promoting the health benefits of wine and the benefits of food accompaniment
4. Identifying market development strategies through positioning, market research, distribution, product development, promotion and regional branding.

(Electronic citation: Australian Wine Online, 2008)

The institution that was created to tackle these initiatives was Wine Australia Pty Ltd as well as the Australian Society of Wine Education, whose focus was to promote the unique aspects of Australian wine and Australian wine regions to the domestic and international community. All in all, Vision 2025 is a good example of how strategy and industry focus can lead to consistent positive growth of wine consumers.

Australia is not, however, without its challenges as it transforms into a more mature wine market (Electronic citation: Australian Dept. of Foreign Affairs and Trade, 2008). In the past decade there has been minimal focus on developing new wine consumers, which is in part due to the relative maturity of the Australian market and the outstanding export opportunities available. Nevertheless, Baby Boomers are a non-renewable resource and it appears that younger consumers are not drinking nearly as much wine mostly as a result of being spoiled for choice with the RTD (ready to drink) market, and younger consumers are showing brand savvy behaviour (Levine, 2004). This presents new challenges to the industry to entrench and grow domestic wine consumption in the coming decade.

Australia sees opportunities for increasing domestic wine consumption in future to include:

- population growth in prime wine-consuming age groups (above 25 years)
- forecast growth in discretionary income which will drive further premiumisation (trading up)
- growth in the dining out market
- growing evidence of the positive link between moderate wine consumption and health
- tourism growth and
- growth in demand for more individualised lifestyle (beverage) experiences.

(Australian Wine Online, 2008)

The most promising indicator of future success for Australia's wine industry is that promoters of Vision 2025 have argued that the Australian wine industry's success in domestic wine consumption and exports should not be seen as a 'recent unrepeatable phenomenon' (Electronic citation: Australian Wine Online, July 2008). This indicates that additional focus on improving wine production, growing exports and domestic consumption is likely from South Africa's Antipodean competitors.

3.2 Russia

Research by Euromonitor in 2004 indicated that Russia was the 'fastest growing retail food sales market in the world' and had the potential to once again double in size by 2008 (Taybakhtina, 2004). Stimulated by stable economic growth in the last decade, wine consumption has increased 30% on average for the past few years and is therefore also one of the world's fastest growing wine markets (Hodgen, 2005; Taybakhtina, 2004). In terms of frequency of consumption, Russia has seen a 10% increase on average in the number of *regular* drinkers of wine between 1999 and 2004. While annual wine consumption per capita remains relatively low at approximately 6 litres per capita (TDA, 2006), Russia expects a 20% increase in per capita consumption by 2009. With an alcoholic beverage market worth an estimated \$16-17 billion, there is great scope for wine consumption growth in the future (Taybakhtina, 2004).

Prior to 1985 the wine market in Russia was dominated by locally produced wines. In the 1980's however, Russia experienced a major disruption to the alcoholic beverage market with its anti-alcohol campaign. This resulted in most local wineries being destroyed, although some market experts suggest the quality of domestic wine was low (Taybakhtina, 2004). Consequently, wine production in Russia fell around 80% and is still considered not to have recovered. This means that Russia's share of imported wine has increased substantially in recent years with \$189m being spent on imports in 2003 (Taybakhtina, 2004).

As in other world markets, Russia is experiencing a change in alcohol consumption habits with consumers increasingly switching from vodka to lower alcohol products such as wine. Experts agree that this trend is expected to continue for some years, being fuelled by the habits of the younger and more affluent generation.

Nevertheless, strong alcohol still accounts for the majority of liquor sales (56%), followed by beer at 31% and then wine at 13% of all alcohol sales. One of the challenges in growing domestic consumption in Russia is that traditions of wine consumption are very specific and can be broken down into three main categories (Taybakhtina, 2004):

- 40 percent of wine is purchased for a national or family holiday;
- 25 percent when meeting with friends; and
- 15 percent when eating out.

According to market experts, wine has the brightest prospects in the alcohol category. At the end of the 1990s, the demand for beer reached its maximum growth rate of 40 percent a year. At this point, beer consumption growth is slowing down and may even decrease to a 4-5 percent growth rate a year. Market experts estimate a per capita wine consumption in Russia might reach 14-15 liters a year in the near future.

Russia's rapid expansion in domestic wine consumption is attributed to the combination of a number of factors in the market; however, as with all countries it also faces a number of unique challenges. These advantages and challenges are presented in Table 4.

Table 4: Factors influencing the growth of wine consumption in Russia

Advantages	Challenges
Six years of a growing economy	Still low average per capita income; price heavily influences on consumers' wine preferences
Increase of per capita income of the Russian population	Traditionally, Russians prefer strong alcoholic drinks to wine
Russians have become more health-conscious. As a result, they consume more high quality products, including more expensive and elite types of wine	Most Russians are not aware of wine quality & taste difference
Russian consumers are switching from vodka to more expensive and elite strong alcoholic drinks. At the same time, wine consumption is increasing by almost 30 percent per year.	Absence of a national distribution network
Advertising of wine consumption by the major wine players in Russia, including wine consultations for consumers in the large retail outlets and wine boutiques and special sessions for wine professionals.	Strong presence of wine from European countries in the Russian market.
Growth of special wine stores, primarily in the large Russian cities	Aggressive promotion of wines from Europe, France and Italy and the New World, Chile
Russia's vineyards in the Southern regions are insufficient to meet the growing demand for quality wine. Therefore, Russia depends heavily on imports of bottled wine and wine materials.	High profit margin in the retail outlets put inexpensive U.S. table wine into the higher premium category.
Russian importers want reforms to raise interest in wines (lift a ban on grape wine in press).	Love-hate relation to U.S. products on the part of the Russian consumers: recognition of U.S. high quality products versus GMO products
The Russian government taxes with a VAT domestically produced wines at rates equal to imported wines.	High import tariffs and lengthy inspection procedures
While supermarket/hypermarket chains currently account for only about 20 percent of total retail sales in Moscow and less than 10 percent for the country as a whole, these chains are expanding rapidly	Traditional outdoor markets still account for about 43 percent of total retail sales and also remain an important target for wine

Source: Taybakhtina, 2004

In summary, the Russian market has experienced positive growth from a socio-economic standpoint for a number of years. This factor in combination with changing consumer habits from hard to softer alcoholic drinks has to a large extent fuelled domestic wine consumption growth. The Russian wine industry has a number of factors working to its advantage, however needs to overcome its unique challenges such as its high import tariffs, large retailer margins and traditional consumer habits in order to stimulate the consumer market even further.

3.3 India

Domestic consumption of wine in India measured 10 million litres in 2007 and is anticipated to reach approximately 15 million litres in 2008 (SommelierIndia, 2008). Furthermore, the Indian wine industry is in a significant upward trend with wine production and wine consumption expected to increase 25% to 30% in the next 4-5 years (Rabobank, 2008). Growing domestic demand for wine makes up a large proportion of this growth which has been attributed to a number of factors including impressive economic growth, high growth in disposable income, rapid urbanization and the emergence of modern supermarket chains which make wine available for the new and fast emerging consumer base (Rabobank, 2008). India's economic growth is evident in the fact that it has grown 7.5% annually between 2002 and 2006 and its middle class has increased fourfold since 1985 (Guinard & Marti, 2007). The outcome of consistent positive economic growth for the wine industry is that prosperous Indians are increasingly adopting consumer habits of the rising middle class, such as buying more imported cars, more trendy clothing and more wine (Guinard & Marti, 2007).

Nevertheless, the remarkable growth in consumption is coming off a very small base of approximately 785,000 cases of wine which is negligible in the Indian alcoholic beverage industry which sells 480 million cases made up of country liquor (local spirits such as feni, toddy and arrack make up this category), whisky, brandy, rum, vodka, beer and wine to a population of over 1 billion people (Rabobank, 2008). Future trends in consumption are estimated at 2 million cases by 2010. Guinard and Marti (2007) are quick to point out that average wine consumption per capita is just over 1 teaspoon or 6 millilitres per year (compared with 375 millilitres in China), however, while one should acknowledge that big portions of the Indian population will not enter the market any time soon, it is important to recognised that the consuming class on its own will reach 300 million people in the next few years, the equivalent of the entire population of the United States (Guinard & Marti, 2007).

An interesting fact for the industry is that approximately 60 percent of the wine consumed in India is produced domestically by its local wineries, of which the three largest are Chateau Indage, Sula Vineyards and Grover Vineyards (Guinard & Marti, 2007). Other interesting factors are that some industry experts report of a similar trend in India to that seen in California in the 1990's, where the information technology (IT) revolution was paired with the surge of Napa Valley (Guinard & Marti, 2007). In India, it appears that the IT industry and the outsourcing trend have paralleled the growth of wine consumption, mainly in the large cities.

Given the rate of expansion in domestic wine consumption, it is important to determine the cause of this growth so that similar lessons may be learnt and applied in South Africa. The following factors are considered to be responsible for the growth in domestic consumption of wine in India:

- Changing fashions - Wines are considered fashionable, upmarket and sophisticated. Wine is now *de rigour* at most society dinner parties, amongst Bollywood actors, and women in many of Bombay's four thousand bars (Guinard & Marti, 2007; Chandra, 2004). Wine is also a definite presence at most weddings and anniversary celebrations which indicates that, although it is not yet an everyday product, it is starting to become lifestyle oriented (Singh, 2005).
- Role of imported wine – Imports are a style statement, particularly in the large Indian cities, where it is the fashion to raise a toast with a glass of Chardonnay or Bordeaux. The high cost of foreign wine, being particularly expensive in India, is consumed mainly by English speaking, Western-educated men and women. The average Indian wine consumer tends to be a young professional, internationally oriented city dweller. This is backed by research which shows that Bombay is the largest wine market, followed by Delhi, Bangalore and Goa, which between them account for nearly 75% of all imported and premium wines (Chandra, 2004).
- Wine appreciation courses - With Indians building up a powerful thirst for wine, bar owners and wine producers are establishing wine appreciation courses. They are also training their staff in the art of pairing wine with food.
- Health - Guinard and Marti (2007) found in their research that Indians perceive wine as a healthy drink, indicating that Indian media efforts to position wine as beneficial to health over the past decade are bearing fruit.
- Importance of on-consumption - Whilst there has been growth in the development of retail supermarket chains in India, research shows that restaurants, five-star hotels, pubs and bars are the main wine selling outlets and contribute 63% in total sales (Guinard and Marti, 2007).
- Variety of wine - The number of wines on offer to consumers has increased considerably. In 2004 there were over 200 wine labels available on Bombay retail shelves – up from 30 numbers two years previously. Not only have the number of available imported wines increased exponentially, the Indian producers, too, have introduced a number of new labels and wine styles (Chandra, 2004).
- Emergence of Wine Clubs - Delhi has two wine clubs (the Delhi Wine Club and the Wine Society, Delhi); the Bangalore Wine Club has been around since 2001; there is the Chandigarh Wine Club & the Hyderabad Wine Club, and industry experts are receiving enquiries on a regular basis on how to start wine clubs. Furthermore, companies such as the Indian Wine Academy are regularly organizing wine events (Chandra, 2004). Specialized magazines such as *Sommelier India* and its popular blog have also been established. These all show that the Indian wine consumers are eager to learn more about wine, and education is a prime marketing tool for the wine industry. Rabobank (2008) report that the experimental behaviour and curiosity among consumers for wine are leading to growth in the Indian wine market.

- Government involvement in the wine industry - There has been growing interest from the government to shape the Indian wine industry as a result of the impressive growth experienced in wine production over the last six years – growing on average by 25% each year. This growth has stimulated significant interest from entrepreneurs, foreign liquor companies, and private equity firms.
- Decline in import duties - Customs duties have been reduced by 8 – 12% with the elimination of the 4% “special additional duty” from February 2004, and while duties remain very high at 140% - 250%, they have been partly offset by hotels starting to import duty free wines (Chandra, 2004). The forward-looking ‘Grape & Wine policy’ of the Maharashtra government has been further liberalised with the elimination of both excise duties as well as sales tax on wines produced within the state. This is expected to decrease wine prices and increase volumes sold. Other states are also actively considering introducing similar policies (Chandra, 2004).
- Marketing strategies – Indian consumers are gaining awareness about wine due to improved marketing and distribution strategies (Rabobank, 2008). A common marketing strategy revolves around sampling, which provides consumers with the opportunity to try various different types and brands of wines in restaurants and bars. Improved marketing techniques and increasing awareness about wine in India is not only increasing the consumption of domestic wine but also giving benefits to new brands.

Despite these initiatives and reasons for growing domestic consumption, India’s wine industry is not without its challenges, which stakeholders report to include:

- Religion still has a stronghold on the overall drinking patterns of Indians, as well as the various social taboos related to drinking (Singh, 2005; Chandra, 2004).
- The sporadic growth within the industry means that many areas of the industry have escaped formal supervision. The wine industry is at a stage where it needs support and encouragement more than strict disciplining (Singh, 2005).
- The government needs to establish a competent national authority to govern and guide local wine activities (Singh, 2005)
- It is unlikely that wine will become a drink of the people in rural areas
- Every state in India has a different set of regulations – much like the USA. Furthermore, although India's economy has gone through a liberalization process, local governments tax wines heavily (Guinard & Marti, 2007; Singh, 2005).

In summary, India has experienced positive socio-economic growth for most of the new millennium, which together with a number of other salient factors has fuelled the growth in wine consumption among the local market. This trend has shown no signs of abating and it appears that a great deal of effort is being placed in a number of areas in the industry and the Indian market in order to support the future growth of wine in the country.

3.4 China

Despite China having a long viticultural heritage, twenty years ago wine consumption in China was negligible. Today Chinese demand for imported wine is growing at about 30% annually due to strong economic growth, affording lucrative opportunities to those producers and distributors that are willing to understand the consumer market in mainland China (Workman, 2006).

In the mid-1980s, a few domestic producers and joint ventures began to produce red and white wines on a large scale. They developed into three of China's most famous brands: Changyu, Dynasty and Great Wall. Currently, these three brands control approximately 80 percent of the wine market.

From the mid 1990's China's economy was expected to grow quickly and disappointed many wine producers and distributors importing wine to China, however since approximately 2002, per capita income in the major cities has grown quite rapidly as a result of foreign direct investment in China. Foreign investment has encouraged further Westernization of communities, particularly in the urban areas, spreading the practice of Western habits. Consequently, more people have started to consider wine as a sophisticated drink and this has encouraged a social and cultural trend towards drinking wine (Smith, 2007).

In addition to this trend, duties on imported wine have declined due to intervention from the World Trade Organisation. Since joining the World Trade Organization on December 11, 2001, China has lowered tariffs on wine imports from 64% to 14% (Workman, 2006) making wine substantially more affordable to consumers. To take advantage of the lowered tariffs, some of China's biggest alcohol makers (for example Wuliangye) started importing wine from Europe and selling it under their own Chinese brand (Smith, 2007). Importing bulk wine (quoted as 90 million litres in 2006) from Chile and Argentina is considered cheaper and more efficient than using local Chinese growers to supply wine for bottling under local Chinese brands.

A further trend precipitating the growth of wine consumption is the growth of supermarkets. When duties fell and demand for wine started to increase, retailers started becoming more interested in stocking wines and hotels and restaurants started ordering more wine, stimulating the wine market even further.

Wine sales indicate that over 70% of wine purchased in China is red wine versus 23% white wine (Smith, 2007). Red wine is fashionable at lounges, night clubs and some upscale Chinese restaurants and banquets. One of the main reasons for this trend is that the Chinese press extols the health benefits of red wine. Furthermore, it has been reported that most Chinese consumers are attracted to wine for its health benefits rather than its taste. Expensive bottles of red wine are now the latest 'trophy drink' of newly rich Chinese, who drink wines when eating out as a sign of both wealth and sophistication. Chinese are very conscious of what is healthy and red wine's image of being a healthier alternative is driving growth.

Almost a decade since the early 2000's, a vibrant and increasingly savvy wine culture has taken root in China. The country's wine consumption (albeit off a very low base, has grown more than 50 percent during the first half of this decade and is on course to increase another 70 percent during the second half (Steinberger, 2008). These growth trends have caught the eye of all sorts of Western wine luminaries, who have begun to take China very seriously.

Once again it is important to determine the cause of the growth in wine consumption in China so that similar lessons may be learnt and applied in South Africa. The following factors are considered to be responsible for the growth in domestic consumption of wine in China:

- Economic growth (GDP growth, foreign direct investment and consequently per capita income) is a leading indicator of wine consumption
- Westernisation and urbanisation – adoption of Western habits
- Health factor – particularly the benefits of red wine
- Government intervention
 - Lowering of import duties
 - Agricultural focus – encouraging the planting of vines
 - Marketing of wine as a 'healthier' alternative to spirits
 - Stimulus for tourism in Hong Kong (Hermoso, 2007).

China is not without its challenges however, some of which are discussed briefly below:

- **Consumer preference and per capita consumption:** Over two thirds of global wine growth appears to be coming from Asia. Despite the fact that China is considered to be the largest wine market in Asia by volume, with over 74 million cases of wine sold to consumers (Euromonitor, 2006), on a per capita level, the Chinese drink on average less than a bottle per person per annum. As a percentage of total alcoholic consumption, wine represents only 1 percent (Smith, 2007). This is mainly due to the widely entrenched culture of drinking white spirits (Jun, 2003) and means that it will take time for a wine culture to develop in a country where wine appreciation is in its infancy (Workman, 2006).
- **Quality:** While the local wine industry is booming in respect of the volume of output from China (now the world's sixth-largest wine producer), quality is suffering. There is a glut of low quality domestic wines for sale but few truly fine wines bearing the 'Made in China' label. Domestic brands of wine sell for between the equivalent of \$3 - \$11 (mostly below \$6) and quality is in general quite poor since growers are focusing on volume rather than quality of wine (Smith, 2007). In comparison, most imported wine sells for between \$8-10, with the most profitable segment of the market being the premium wine category at \$8-\$25.
- **Domestic versus Imported wine:** Given that only 6% of consumption in China is imported bottled wine sold mainly in large cities such as Shanghai, Guangzhou, Beijing and Fuzhou, it appears that the majority of wine being consumed is bulk wine from domestic producers (Smith, 2007). Some of the biggest producers of

wine in China however tend to blend imported bulk wine (from Chile, Argentina and even France) with local Chinese wine to sell it off as 'Chinese' wine. Consumption of foreign wine occurs mainly in nightclubs, bars and upper-class restaurants and hotels. The Chinese seem to prefer local wines rather than imported brands which are bought in supermarkets primarily for presenting as a gift to a friend.

- **Distribution networks:** The Chinese market is a challenging, inefficient market to enter as there is no existing wholesaler network for foreign importers to leverage off. Furthermore, it is difficult to enter the market without some experience in the industry and importers have mentioned that they have had to build their own structure and network which takes much time and effort (Smith, 2007).
- **Fragmented market:** The competitive market environment in China is still fragmented and is made up of small, medium and large players, including leading international players who have recently entered China through the acquisition of local brands (Euromonitor, 2008). It is expected that as the market matures and further foreign interest is shown, that the market will start to concentrate over time with the small and medium sized domestic players gradually withdrawing, being bought up by or forging joint ventures with foreign owned multinationals such as Constellation or local companies such as China Resources Enterprise and Wuliangye.
- **Mainland China vs. Hong Kong:** Mainland China and Hong Kong are very different markets which require very different strategies in terms of the marketing and distribution of wine. Hong Kong, operating in its own economic zone, has many Westernised customers concentrated in a small area (Smith, 2007). In contrast, mainland China's consumers are spread out widely across the vast expanse that is China, even though wine consumption is limited to large urban cities such as Shanghai, Guangzhou, Beijing and Fuzhou. Consequently, there is a need to build a national distribution network to cater for and supply these many cities.
- **Fake wine:** One particular area of concern in the Chinese wine market is the damage to the reputation of wine brands resulting from fake liquor sales (Mangin, 2008). The quantity of fake wines in circulation appears to be increasing in direct relation to the consumption of better quality (often imported) wine as the market becomes more lucrative. With China's wine market expected to grow by 60% within the next five years, this may become a more serious issue requiring more direct government intervention.

Despite the known challenges of the Chinese market, the ongoing opportunity this market represents cannot be overlooked. Indeed, the strong growth of the emerging and newly-developed markets throughout greater Asia makes this one of the most attractive regional wine markets worldwide.

3.5 Summary of the country analysis

This chapter analysed four countries experiencing high growth in the domestic consumption of wine. A brief analysis of each country was provided, with particular emphasis on those initiatives or reasons for the growth. An understanding of what other countries are achieving and how they are going about achieving higher wine consumption is important prior to applying relevant knowledge to the South Africa context. The following chapter provides a description of the South African consumer.

4. Profile of the South African consumer

Prior to embarking on an analysis of the South African consumer, it is necessary to take a step back into history to determine the potential origins of the issue of low wine consumption plaguing the domestic wine industry, in particular the origin of the consumption of wine amongst black South Africans. Prior to 1962, and some while after the prohibition was lifted, state institutions paired drinking habits with race and consequently excluded all blacks from the retail liquor trade. By connecting alcohol consumption habits to race and by positioning race in a social hierarchy, state institutions determined access to liquor (Mager, 2004). Through linking liquor revenues to apartheid administration, the apartheid government absolved its policy of excluding blacks from the retail liquor trade even after lifting prohibition in 1962.

As a result of this legislation and the ensuing need for self-sufficiency, a mini-industry developed in the townships to manufacture, acquire illegally, and sell beer and spirits to consumers in the townships who frequented what is familiarly known today as shebeens. To this day, one of the liquor industry's biggest challenges is that a significant proportion of the liquor trade remains unlicensed (ABR, 2008).

Partly as a result of this legacy, African people created a complex set of habits surrounding alcohol consumption (Mager, 2004). One of the indirect outcomes of this legacy is that most South Africans have never tasted wine (Loubser, 2004), preferring beer and spirits which have always been the mainstay of shebeens.

This chapter presents the profile of the South African consumer including trends in the various sectors of the population. Alcohol consumption trends of South Africans are also presented, with a view to the future. Black middle class consumers receive specific focus as a growth area for the wine industry to take note of.

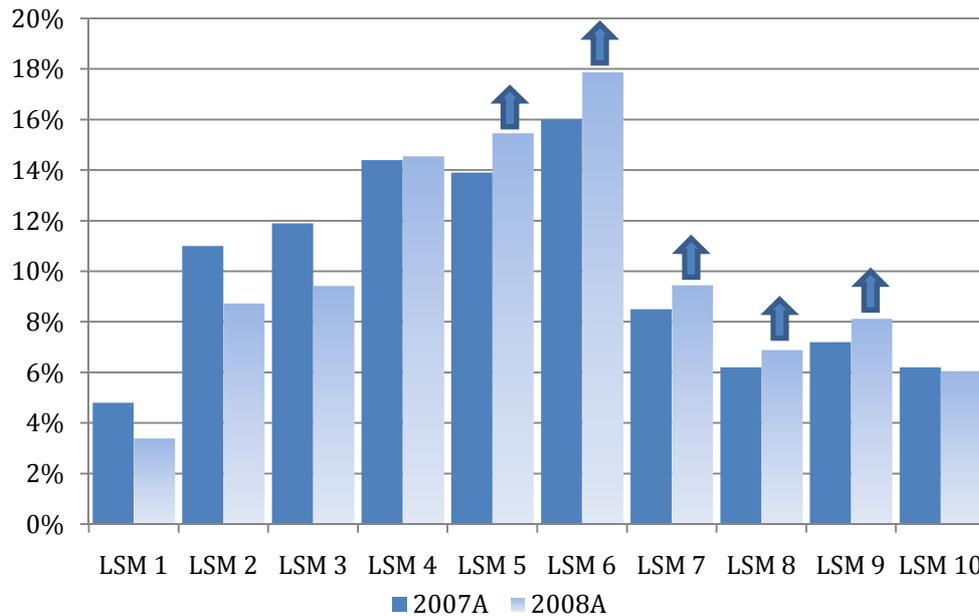
4.1 The South African consumer market

WOSA chose an apt phrase in its choice of 'Diversity is in our nature' for promoting South African wines around the world, for we are as diverse as the wine we make. Cultural, geographic and economic diversity are the three main factors dividing the consumer market and these naturally influence purchasing and consumption habits of all products including alcoholic beverages.

The South African Advertising Research Foundation (SAARF) provides a tool to cope with this diversity in order to facilitate market research. The Living Standards Measure (LSM) is a wealth measure based on standard of living rather than income. It divides the population into 10 LSM groups, 10 (highest) to 1 (lowest). The SAARF LSM is a unique means of segmenting the South African market mainly since it disconnects race from the equation by grouping people according to their living standards (or socio-economic status) using universal criteria such as degree of urbanisation and their ownership and or use of 29 goods and services.

Figure 6 represents the most recent split of the South African population into LSM groups, showing the movement within LSM groups between 2007 and 2008. The majority of South African consumers (79%) fall within the lower LSM categories (LSM 1-6) (SAARF AMPS, 2008A). The arrows indicate where the largest growth has occurred since the last research study was undertaken, which shows that the middle and upper LSM groups (LSM 5 – 9) are growing and the lower LSM groups shrinking (LSM 1-3).

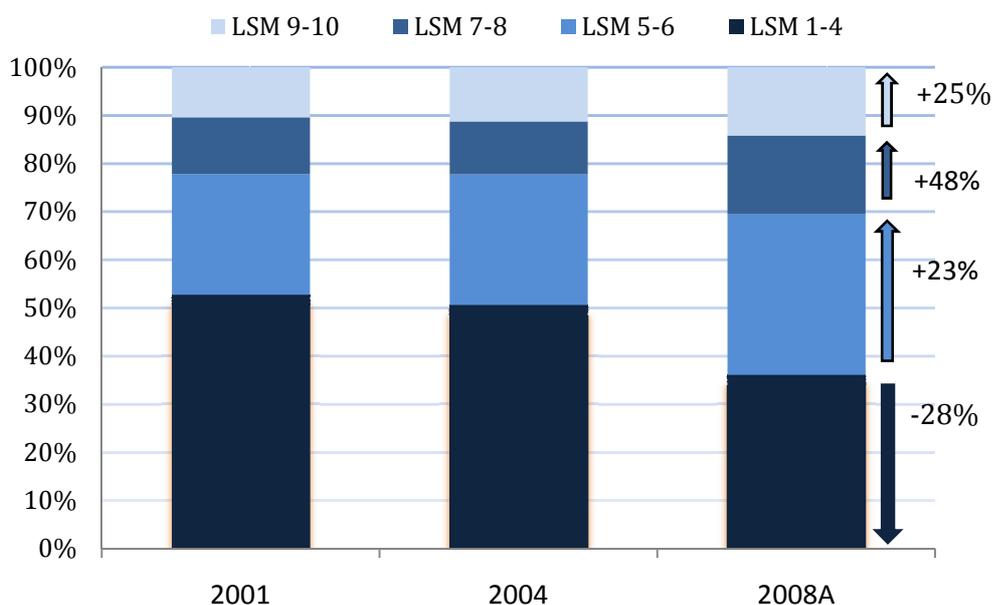
Figure 6: Percentage of consumers split into LSM Groups



Source: SAARF AMPS (2008A)

Figure 7 shows that there has been significant growth in the mid to upper LMS's between 2001 and 2008, particularly in the period between 2004 and 2008. LSM's 7 – 8 grew substantially by 48%, whereas the top LSM's 9 – 10 grew 25%. A noticeable 28% drop was shown in the lowest LSM's 1-4 which shows that the very poorest segment of the South African market is shrinking – albeit gradually. The growth in the mid to upper LSM's is a factor reflected in recent research on the black middle class which is a trend in itself and is discussed separately later in this chapter (UCT Unilever Institute of Strategic Marketing, 2007).

Figure 7: LSM Profile change from 2001 to 2008



Source: SAARF AMPS (2008A)

While average monthly household income has risen substantially over the past decade from R2435 in 1994 to R6537 in 2008 (SAARF AMPS, 2008A), there remains much inequality as displayed in Table 5. The table shows that both marginalised and emerging consumers earn less than the average household income, with only 30.5% of the population (established consumers) earning above the average monthly household income. These statistics are representative of a much skewed market in terms of income potential, with over 63.9% of all household income earned by 30.5% of the population.

Table 5: Average monthly household income

Descriptor	Marginalised	Modern Consumers	
		Emerging	Established
Share of SA population	21.6%	47.9%	30.5%
LSM Classification	LSM 1 - 3	LSM 4 - 6	LSM 7 - 10
Average monthly household income	LSM 1: R 1080	LSM 4: R 2536	LSM 7: R 8677
	LSM 2: R 1401	LSM 5: R 3122	LSM 8: R 12337
	LSM 3: R 1795	LSM 6: R 5386	LSM 9: R 16296
			LSM 10: R 23054
Share of total SA household income	5.90%	30.20%	63.90%

Source: SAARF AMPS, 2008A

4.2 Consumption expenditure

The latest Income and Expenditure survey by Statistics South Africa using data from 2005-2006 indicates that while black Africans' share of the population rose from 78,3% to 79,4%, their share of consumption expenditure increased from 42,9% in 2000 to 44,3% in 2005/2006 (IES, 2008). White households' share of consumption expenditure fell from 44,1% in 2000 to 42,9% in 2005/2006 (and their share of the population fell from 10,1% to 9,2%). The average amount spent on Alcoholic beverages and tobacco per household over a 12 month period in 2005/2006 was R647.

Table 6: Composition of consumption expenditure categories by population group

	IES 2000		IES 2005/2006	
	Black African	White	Black African	White
Share of population:	78.30%	10.10%	79.40%	9.20%
Alcoholic Beverages and tobacco	44.90%	38.10%	49.10%	31.20%
Restaurants and hotels	39.50%	51.40%	43.10%	45.80%

Source: Income and Expenditure Survey (IES, 2008)

Research conducted on expenditure habits of Gauteng consumers reveals that the share of Africans in total household expenditure in Gauteng was more than half the total expenditure on Alcoholic beverages 67 % (Martins, 2004). An analysis of total expenditure categorised by type of outlet shows that households in Gauteng spent R1.6 billion at shebeens and that more than a third of the estimated R3,2 billion spent by households on beer was spent at shebeens (Martins, 2004).

The research shows large differences in expenditure patterns between the population groups (black African, coloured, Indian/Asian and white) which can partly be attributed to the wide differences in income and the large impact of income on spending patterns. What's interesting to note amongst these different spending patterns is that Black African households spend 50% more on alcoholic beverages and tobacco than white households (IES, 2008).

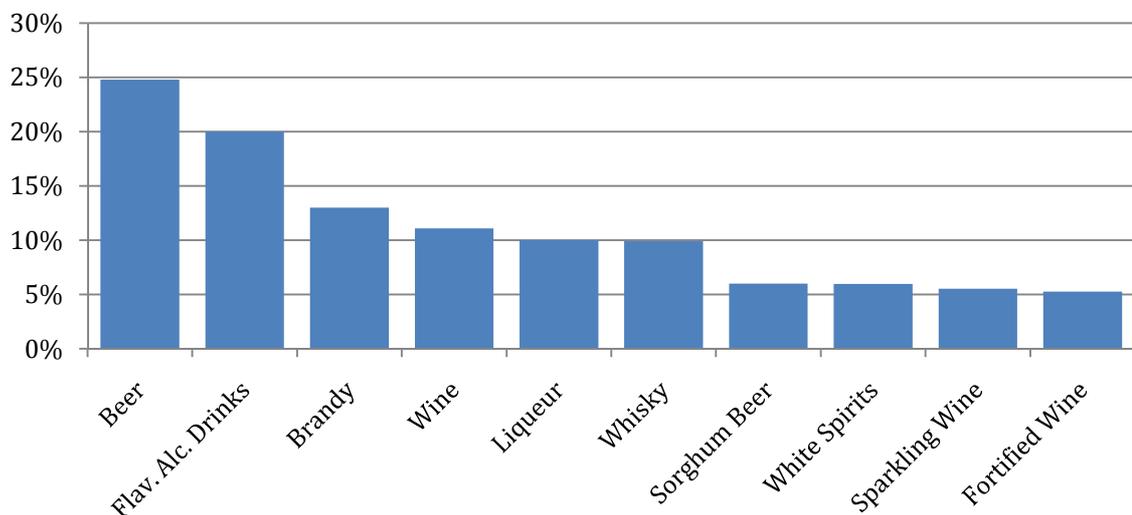
The implication of the above research for the wine industry is that specific effort should be made to appeal to black Africans since:

- There is huge potential in shebeens
- Expenditure by black Africans is making up a greater and growing proportion of total expenditure in South Africa
- Black Africans spend a higher proportion of household income on alcoholic beverages than whites

4.3 Alcohol consumption among South African consumers

If there was any doubt that South Africans were beer drinkers, Figure 8 confirms this fact. In the latest SAARF AMPS (2008A) research, consumers were asked what alcohol they had consumed in the previous seven days. The results as shown in Figure 8 indicate that 24.8% of all adults had consumed beer. The remaining alcohol categories were less well represented, although flavoured alcoholic drinks (likely RTD's), brandy and wine were the next three in order of preference. In the wine categories, table wine, fortified wine and sparkling wines were consumed by 11%, 5% and 5.5% of adults respectively (these figures cannot be summed as the research allows for overlap, meaning that some of the 11% who reported drinking table wine may also be included in the 5% who consumed sparkling wine).

Figure 8: Percentage of Adults consuming alcohol over a period of 7 days

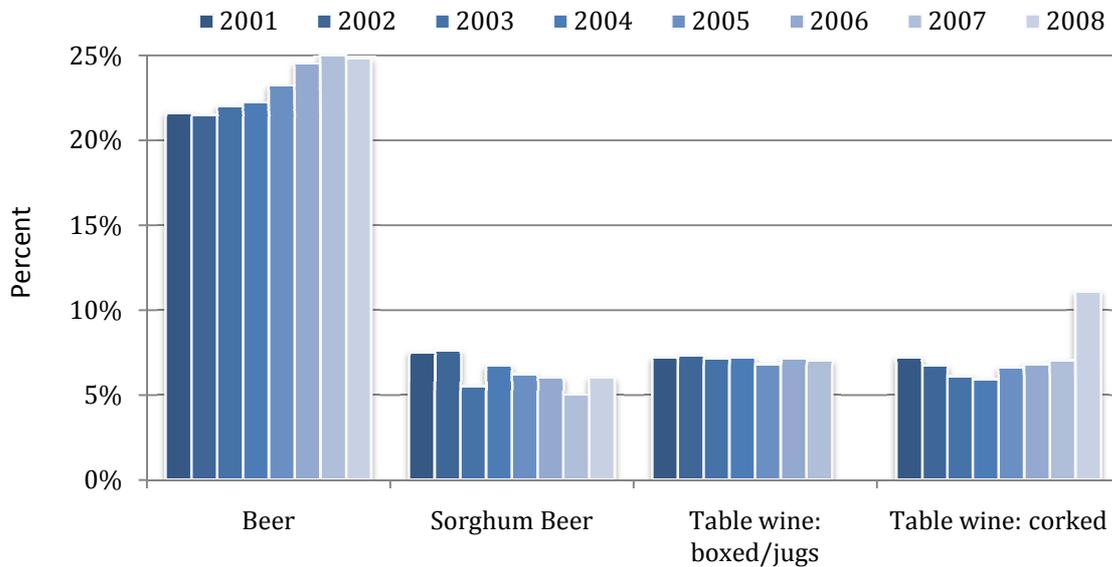


Source: SAARF AMPS (2008A)

Figure 9 displays the percentage of adults who have purchased or used four specific categories of alcohol over a period of eight years. It shows that from 2002 to 2007 the percentage of South Africans consuming beer rose from 21.5% to almost 25% (SAARF AMPS, 2008A). Recent trends, however, show that there has been a slight drop in beer consumption in the past year and this will need to be monitored over time to determine whether it is an ongoing trend. In contrast to the growth in beer over the longer term, consumers of boxed wine stayed relatively stable over that period. The percentage of consumers consuming wine closed with cork increased from 5.9% to 6.8% from 2003 to 2006 after a downward trend for the prior three years. Unfortunately SAARF no longer splits table wine into 'boxed' and 'corked' categories and the recent spike seen in Figure 9 for corked wine in 2008 is actually a combination of corked and boxed wine. New trends would therefore need to be collected over a period of time to monitor the wine consumption trends.

An additional trend to emerge from the research was that the consumption of wine grows as the LSM group increases, with the highest consumption of wine in LSM 10 – just over 22% of all consumers in LSM 10 consume wine. What is clearly evident though is that for the foreseeable future beer is by far the drink of choice amongst South Africans.

Figure 9: National trend of adults purchasing / using alcoholic beverages



Source: SAARF AMPS (2007B)

An analysis of table wine purchase / usage by the percentage of South African adults in the LSM groups as displayed in Table 7 indicates that wine purchase in general is far lower amongst the lower LSM groups. There is a direct correlation between LSM group and percentage of adults who purchase wine, with this percentage generally increasing as the LSM groups move from low to mid to upper LSM's, with a slight dip in LSM 6 and 7. Furthermore, only in the upper LSM's 8 – 10 does wine closed with cork become preferable over boxed wine.

Table 7: Percentage of adults in LSM groups consuming Table wine

	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Table Wine	7.4%	8.0%	10.0%	9.1%	11.0%	8.7%	9.4%	13.2%	17.3%	23.3%

Source: SAARF AMPS (2008A)

The trends discussed in this section highlight a number of direct and indirect factors pertinent to the discussion on wine consumption including the following:

- South Africa's population is skewed towards the lower LSM's whereas wealth is skewed towards the upper LSM's
- The number of adults in the mid and upper LSM's are growing whereas the lower LSM's are shrinking

- South Africans are first and foremost beer drinkers in all LSM groups, with beer sales showing strong growth year on year, whilst wine sales trail a long way off
- The purchase / usage of wine among adults in South Africa has stayed relatively constant over the past 6 years (i.e. no significant growth rate as for beer)
- The purchase and usage of wine increases in direct proportion to the LSM levels.

4.4 The Black Middle Class

The current population statistics for South Africa show that 79.2% of South Africans are Black (Statistics SA, 2008). While there is not one homogenous black market in South Africa (research shows 16 segments), all stakeholders in South Africa admit that the Black middle class is certainly an attractive market segment.

The research done by the UCT Unilever Institute of Strategic Marketing (2007) shows that 2.6m people (or 7% of the Black population) fall within the category of black, middle class, salaried, well educated people otherwise known as Black Diamonds. The concentration of Black Diamonds is mainly in major metropolitan areas with 66% of Black Diamonds living and working in Gauteng (mostly in Johannesburg), followed by KZN with the second highest concentration, the Eastern Cape, the Western Cape and finally the Free State. Within these provinces, there has been a noticeable shift from Black Diamonds living in the townships to the suburbs. In 2005, 77% of Black Diamonds still lived in townships compared to more recent figures from 2007 which indicates that this has dropped to 53%. In contrast, the suburbs have seen an increase from 23% of all Black Diamonds in 2005 to 47% in 2007. To indicate the scale of the flight to the suburbs, UCT reports that 12 000 families are moving from the townships to the suburbs every month – which equates to approximately 50 000 people (UCT Unilever Institute of Strategic Marketing, 2007). Nevertheless, statistics show that 63% of those living in the suburbs have visited friends and family in the townships in the last month.

A common characteristic amongst Black Diamonds is considered to be a future focus mindset and visible signs of success. They believe that owning or acquiring a home is important and they have aspirations and confidence in the future.

The following are some of the reasons why Black Diamonds should be specific focus area for wine producers and wine retailers:

- This group is worth R180 billion and makes up 28% of total South African buying power, having recently surpassed the buying power of whites. Within the total of all Black South Africans, the 12% of Black Diamonds account for 54% of the spending power amongst Blacks.
- They have access to credit, benefit from employment equity and have the advantage of Black Economic Empowerment opportunities.
- Black Diamonds project status through their homes – 92% believe that “it’s important that your home created the best impression possible” and 83% love to entertain in their homes.

- The Black Diamond identity is still ‘under construction’ in that the group is in its infancy and growing. Definitions are blurred; the identity is complex and creating tension and is on a journey. These issues all point to the malleable nature of group whose interests can be directed towards wine.
- Segmentation of Black Diamonds is already quite well established, with four major segments identified and ripe for targeted marketing efforts by wine producers and retailers. See Table 8 for a summary description of the segments, their buying power and key insights on how to appeal to each segment.
- The most promising factor is the growth of this sector of the Black population which has shown an increase of 30% between 2005 and 2007. This bodes well for the future as the growth of the middle class has far from peaked, particularly since Black Diamonds move through the segments as shown above. The large group of youths entering the Black Diamond Mzansi segment is a good lead indicator that the middle class will grow in future, either by progressing through the other three segments or through bypassing some of the segments such as the young family stage.

Table 8: Summary of Black Diamond segmentation

Black Diamond segment	Number of people	% of BD	Buying Power	Key insight
Mzansi Youth	470,000	18%	R 7b	I have great expectations, I make a statement through brands
Start-me-ups	490,000	19%	R 37b	I’m on my way up, brands enable me,
Young family	710,000	27%	R 49b	I am proudly providing, when I buy a brand I’m buying an experience
Established	940,000	36%	R 87b	I’m living the good life and its getting better, brands are part of my life
Total	2,610,000	100%	R 180b	

UCT Unilever Institute of Strategic Marketing (2007)

Research conducted by Eion du Toit in Soweto indicates that consumers in the township are very receptive to wine, with tavern owners reporting keen demand for wines priced from R25 to R40. One of the main challenges facing tavern owners though is that the sales representatives of the major distributors or producers are ‘unreliable and disinterested in promoting their wines to township customers’ (Du Toit, 2008).

Many residents in townships did not consider themselves to be wine drinkers, although they drank wine with food on a regular basis. Furthermore, households reported that a bottle of wine was consumed over a few days and sometimes mixed with water to decrease the alcohol content of the wine (Du Toit, 2008). Screwcaps have the potential to not do as well in townships as those sealed with a cork since screwcaps are associated with lower quality wine.

The Black middle class are attractive for the following reasons:

- Fast growing segment
- Increasing interest in wine
- Rising affluence - buying power that increasingly accommodates luxuries

The attraction of the Black middle class is well recognized in the industry. In his commentary in the ABR (2008), MD of South African Breweries Tony van Kralingen states that “the emerging black middle class is changing the nature of the liquor industry and strong consumer spending patterns are helping to spread wealth”. The MD of Distell reports that the “the alcoholic beverage sector remains to benefit from ongoing premiumisation for the third consecutive year. Affluent black middle class consumers have grown dramatically in number and spending power, with all beverage producers vying for their disposable income” (ABR, 2008).

A related factor in the Black middle class is the number of female breadwinners is reported to have grown which affects brand choices and therefore has implications for marketers (ABR, 2008). The challenge lies in developing innovative new products to capture the attention of this market in future.

4.5 Future expectations for the Domestic market

South Africa’s estimated wine production from the 2008 harvest was 787,2 million litres and market requirements in SA was expected to be 698.8 million litres (total sales including producer sales to wholesalers, exports, and direct producer sales) (SAWIS, 2008). Forecasting future wine consumption trends beyond 2008 is a complex practice. The Bureau for Food and Agricultural Policy (BFAP) produces a South African Agricultural Baseline that provides simulations based on a certain set of assumptions which propose the possible outcomes for the future of for example wine prices, wine exports and wine consumption. The baseline does not constitute a forecast, but rather a benchmark of what could happen under a particular set of assumptions. Furthermore, there are intrinsic risks and uncertainties in formulating future trends since policy changes, weather, and other market variations can negate baseline projections. As a result of these variations, BFAP encompasses scenario planning and stochastic analyses with baseline simulations in trying to understand and factor in the underlying risks and uncertainties of agricultural markets (BFAP, 2007).

BFAP (2007) projected that total wine production would start declining in 2008 and continue this trend up to 2012 where after it will start to increase up to 2014, however recent reports show that the 2008 harvest was up by 56,8 million litres over 2007 (SAWIS, 2008). After the decline in exports in 2005 and 2006, results for 2007 show that exports increased 15% (SAWIS, 2008). Whilst future trends in exports is highly uncertain given the variability in the Rand exchange rate, the current worldwide economic downturn as well as competition from other New World countries, South African exports are expected to resume their upward trend to 2012 as shown in Table 9 (SAWIS, 2008).

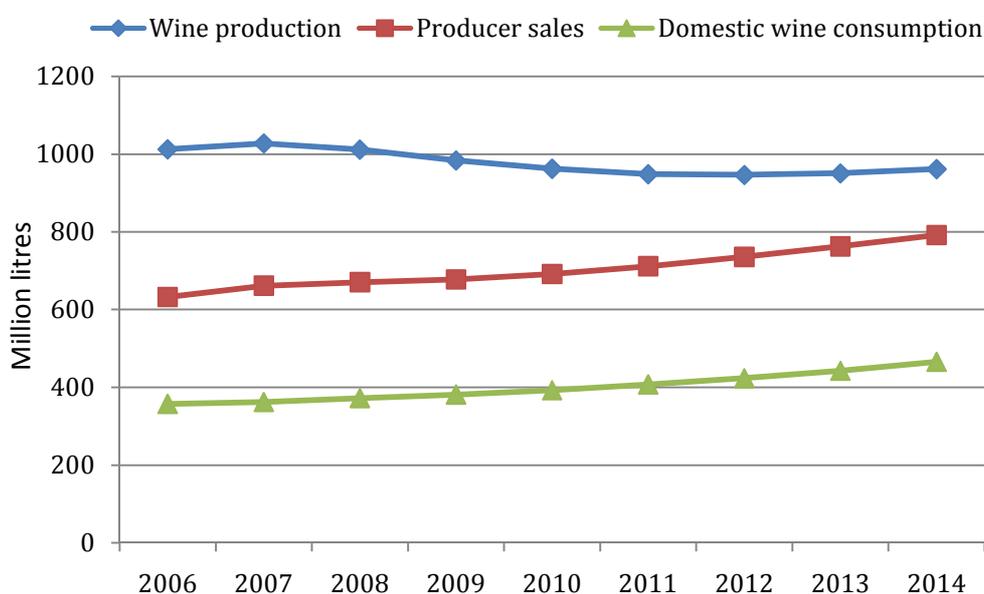
Table 9: Percentage growth of exported wine

Year	Percentage growth
2008	15%
2009	8.9%
2010	7.9%
2011	7.1%
2012	6.5%

Source: SAWIS (2008)

In comparison with wine production which shows declining trends to 2014, producer sales are expected to increase gradually by between 1% and 3.8% from 2008 and 2014 as shown in Figure 10. A slightly more positive growth rate is expected for domestic wine consumption which climbs from a 2.8% growth rate in 2008 to 5.2% growth rate in 2014 as indicated in Table 10. SAWIS (2008) reported a 4.4% increase in domestic wine consumption in 2007 with increase across the whole wine category – table wine, sparkling and fortified wine. BFAP (2007) projects that this growth in domestic consumption will be the result of a combination of population growth and increased per capita consumption.

Figure 10: Future outcomes for wine production, producer sales and domestic consumption



Source: BFAP (2007)

Table 10: Projected future growth rate of domestic consumption

2008	2009	2010	2011	2012	2013	2014	Ave
2.8%	2.4%	2.9%	3.8%	3.9%	4.5%	5.2%	3.6%

Source: BFAP (2007)

What the future holds is uncertain; however it is encouraging that the projected outcomes for 2008 to 2014 reflect a rising growth rate for domestic consumption. What is of particular importance to understand is how these trends might be achieved. The next section of this paper covers this question in more detail.

4.6 Factors relied upon to increase consumption in South Africa

The country analysis in Chapter 3 indicates that some countries with traditional beer or spirit drinkers in the cases of Australia and Russia respectively, *do* evolve over time to wine drinkers, which increases the possibility that South Africa can become a mature wine drinking nation in future. The question is how much more can the domestic market grow and where will the growth come from?

In simple terms, domestic consumption can grow through changes in two main areas:

- Population growth
- Per capita consumption growth through actively changing the consumption patterns of South Africans.

A brief look at the population statistics from Statistics SA reveals that the estimated midyear population in 2008 was 48 687 000 (which includes documented migrants only) (Stats SA, 2008). The split into population groups as shown in Table 11 shows that Black Africans make up almost 80% of the total, followed by Whites who make up 9.2%, closely followed by Coloureds at 9%.

Table 11: Estimates by population group and gender, 2008

Population group	Male		Female		Total	
	Number	% of total pop	Number	% of total pop	Number	% of total pop
African	18 528 000	79	20 037 100	79.4	38 565 100	79.2
Coloured	2 105 800	9	2 273 400	9	4 379 200	9
Indian/Asian	614 700	2.6	628 800	2.5	1 243 500	2.6
White	2 196 300	9.4	2 302 900	9.1	4 499 200	9.2
Total	23 562 600	100.0	24 288 100	100.0	47 850 700	100.0

Source: Stats SA, 2008

The implied rate of population growth in South Africa has been declining steadily for the past six years (see Table 12) from 1.25% growth documented between 2001 and 2002 to 0.82% between 2007 to 2008, partly as a result of the prevalence of HIV which is assumed to be 11% of the total population (Stats SA, 2008). Further factors to consider are life expectancy and percentage of population under 14 years. The life expectancy for males and females is 50.3 and 53.9 years respectively (Stats SA, 2008) and approximately one third of the population is under 14 years of age. Given these statistics, reliance on increased consumption with population growth alone is probably not all that feasible and South Africa should focus on alternatives to stimulate domestic wine consumption in the future.

Table 12: Estimated annual population growth rates, 2001 – 2008

	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Male	1.27	1.24	1.21	1.20	1.09	1.00	0.92
Female	1.23	1.20	1.16	1.14	1.02	0.93	0.74
Total	1.25	1.22	1.19	1.17	1.06	0.97	0.82

Source: Stats SA, 2008

Since population growth cannot solely be relied upon for increasing wine consumption amongst South Africans, the industry will need to rely on increasing per capita consumption through actively changing the consumption patterns of South Africans. This is clearly not a simple matter given the initiatives by the large producers and the resulting very minor increase in per capita consumption rates over the past few years. The next chapter will address some of the initiatives underway.

4.7 Summary of the Profile of the South African consumer

The profile of the South African consumer was presented in this chapter from a general population perspective as well as an economic perspective. Trends were presented showing alcohol consumption (including wine consumption) of South Africans over the past few years. The Black middle class was singled out as a separate group and its impact on the market was briefly discussed.

The future expectations for exports and domestic consumption were then presented followed by a discussion regarding increasing consumption in South Africa. Chapter 5 will address some of the initiatives in progress to increase consumption per capita amongst South Africans.

5. Current initiatives to increase consumption of wine in South Africa

South Africa has achieved a modest degree of success in increasing consumption of wine amongst local consumers amidst much effort and focus on specific market segments. This chapter discusses what is being done about growing wine consumption in South Africa's emerging market. Producer and distributor interventions are presented based on interviews with stakeholders in the industry. The case of 'accidental' success in the Black market by one of the Cape's producers is presented followed by a discussion on the role of the Soweto Wine Festival. Finally, a case is made for an industry body to drive domestic consumption growth in South Africa.

5.1 Producer and Distributor interventions

A number of interviews were carried out with stakeholders in the wine industry to determine their opinion and perspective on interventions to increase domestic consumption. The following people were contacted for their comment:

Representing the large producers:

- Kobus Visser - market research department at Distell
- Desmond Seoposengwe – Johannesburg branch of Distell
- Jacques Roux - DGB's Marketing Director for wines from DGB
- Philip Retief – Van Loveren (Four Cousins brand)
- Greg Rietoff – Somerset Beverages

Representing the wine industry:

- André Morgenthal – Communications Manager, WOSA
- Eion du Toit – MD of Corporate and Social Market Research

Representing smaller producers, distributors and retailers in Gauteng:

- Mnikelo Mangciphu - Owner, Morara Wines
- Liz Budd – Owner, Cape Wine Selections
- Trevor Pocock – Owner, Liquid Assets
- Caryn White – Owner, Wine Logistics.

While the general opinion is that local wine producers have been slow to activate brands in the mainstream market in South Africa, there are a few producers that have been making inroads into this market. Distell is reported to be the most successful so far, especially in establishing the Nederburg, JC Le Roux and Graça brands – in particular Nederburg Baronne which has changed its image and is colloquially known in the Soweto as the Coca-Cola wine (ABR, 2008). Research shows that consumers of Nederburg Baronne trust the brand implicitly – a rare and coveted position for a producer. Swartland Winery as well as Van Loveren with their Four Cousins brand has captured market attention with successful brands that appear to be experiencing substantial growth in market share. The Four Cousins range is an uncomplicated range of wines that has spread like wildfire through what appears to be word of mouth rather than strategic positioning (Du Toit, 2008).

There have been calls for the development of a unique positioning for wine in the black market in order to compete against other alcoholic beverages such as beer and spirits. Whilst some industry leaders such as Tim Rands from Vinimark agree with this positioning, others like Carina Gous from Distell do not (ABR, 2008). They argue that the focus should rather be on creating a wine drinking culture amongst *all* South Africans by making wine 'more relevant' through integrating wine into lifestyle (ABR, 2008; Green, 2006). Among the smaller distributors interviewed, all agreed with Gous in that the mid to premium brands are sold through retail and specialised liquor outlets in the suburbs because the (black and white) consumers purchasing these brands live there. Accordingly, they believe there is no need to develop specialised strategies catering specifically for black consumers in the upper LSM's. Yet when discussing the lower LSM groups, the smaller distributors believed that the large producers have the main role to play in catering for the needs of the mass market. The fact that large producers had substantial marketing budgets to support brand initiatives in the mass market were also mentioned.

Reviews of the alcoholic beverage industry have once again called on producers to make wine brands less intimidating and more approachable in general – although others argue that wine should retain its mystique and sophistication. Either way, a focused strategy is important to capture the black market's imagination and attention in order to drive domestic consumption. A further argument could be made encouraging producers to stop using 'white methods' to try to appeal to black consumers (Mangciphu, 2009). Black consumers in general do not grow up learning to appreciate wine through a dining experience.

The average background of a black consumer should therefore be acknowledged and different methods used to appeal to the market rather than making wines according to what producers *think* the market wants. A suggestion made by one of the stakeholders was to approach the target market and establish what they are looking for in a wine before producing a wine with the 'correct' attributes. This should make selling the product easier than trying to convince the market to drink what is out there.

Distribution to townships by Distell and Vinimark occur through formal distribution arrangements (ABR, 2008). More informal distribution occurs through tavern owners buying directly through wholesalers such as Makro, or from other shebeens and spaza shops. There are also less salubrious options involving stolen and illegal wine. It is expected that once demand for wine in the townships grows, that distribution will not pose an issue for most producers and distributors.

In the case of informal distribution, there are many issues affecting both producers and tavern (or shebeen/liquor outlet) owners. The most important issue is licensing of shebeens since a large proportion of shebeens remain unlicensed and therefore out of scope for producers (ABR, 2008). Furthermore, the producer seldom, if ever, gets the opportunity to interact with the buyer and the tavern owner does not have direct access to the producer to solve issues. Since tavern owners rely on wholesalers' discounts when purchasing stock, stock holding of brands is irregular.

For the producer, irregularity means their brand is replaced by whatever else may have been on discount at the wholesaler and the opportunity to provide a reliable, consistent, quality product is lost. The alternative of permanently providing discounts to stay 'listed' is also unfeasible. For the tavern owner irregularity means that chances must be taken with different brands and it's impossible to offer customers a reliable, trusted product on a regular basis. A last issue confronting both tavern owner and producer is cash flow or the guarantee of payment of stock. This issue is more likely to improve with the maturation of the industry as well as improved business skills.

Research by ACNielsen (2007) shows that townships stores are beginning to stock growing volumes of wine, some of whose owners go to the trouble of having own label bottles for on or off sale consumption. The Alcoholic Beverage Review (ABR, 2008) reports that the number of independent liquor stores in townships is growing. Associated with this trend is that township stores are increasingly stocking natural wines, with some store owners branding wine with their own labels.

According to an interview with wine researcher Eion du Toit (2008), there are 16 highly identifiable segments of South African consumers. As with LSM levels, these 16 segments cut across race and are based on consumer behaviour and usage of wine. He makes the point that there are *no* black segments and white segments, but rather overlaps of these markets where consumption of wine is similar. Du Toit mentions that more research needs to be done and built upon, such as the project to determine the reasons for the success or failure of 24 brands in the Black community. Studies should be facilitated to determine the reasons why certain segments prefer specific brands as well as what imagery on wine bottle labels appeals to different segments of the market. Du Toit also advocates studying the cultural usages and consumer behaviour surrounding alcoholic beverages.

According to Du Toit, the results of the research should then be exploited to position brands in the market which will have elements of appeal to consumers. For example, prior research by Du Toit shows that the *attributes* of wine require consideration. Some consumers in the LSM 4-6 segment prefer wine with low alcohol content for the simple reason that they need to walk home from shebeens or taverns, whereas for the LSM 9-10 segment, alcohol content has little to no influence over usage/consumption behaviour.

In the interviews with the smaller distributors, two main reasons arose in response to why mid to premium wines were not being marketed by the smaller producers and distributors in the townships. While all producers are interested in the black market, they profess that they just don't understand the market; therefore they focus on selling their wines to a market they *do* understand. Another common factor mentioned in their defence was return on investment. The additional sales representatives, delivery expenses and promotional budgets required to build a brand in the township are considered not to be worth the additional sales volume growth to warrant a decent return on investment.

There is also a perception among a surprising number of small and medium sized producers that blacks don't drink wine so why should they promote their wines in townships. In Chapter 3 the impact of the legacy and inaccessibility of wine to blacks was discussed briefly. It's as a result of the consumer behaviour learned over time that wine sold in the township is still considered by a large proportion of the mainstream market as cheap and poor quality since this *was* the state of wine that was available to blacks for a long period of time. Consequently, changing the image of wine throughout the consumer segments will be a gradual process. Furthermore, marketers of wine need to dispel the myth in the black market that wine is only consumed by the affluent. This perception discourages people from asking and learning about wine since they're embarrassed to appear uneducated.

The large producers admit that in general there is not huge demand for high priced wines in the mainstream market, although the owner of Morara Wines, a wine retailer in Soweto, mentioned that approximately half the stock sold in his wine store falls within the premium range of over R100 per bottle (Mangciphu, 2009). This indicates that the market may not be as price sensitive as expected.

The success of a few large brands such as Nederburg Baronne, Graça and Four Cousins do much to stimulate overall wine consumption in previous non-wine drinking segments. It is the success of these entry-level wines which will gradually lead to consumers trading up to more serious wines in future and will thus eventually impact smaller producers of mid to premium brands. In the opinion of the industry stakeholders, the real challenge for the industry is to convert non-wine drinkers. This means that wine producers of all sizes need to actively go out and breach untapped markets with creative new brand strategies and promotional activity. One way in which this can be achieved is through selling wine by association – through the marketing of an aspirational lifestyle and luxury products. Another successful way of converting non-wine drinkers is through education which empowers people with knowledge.

5.2 'Accidental' Success in the Black market

Van Loveren's Four Cousins brand has achieved much success since its launch in 2005 according to Philip Retief, one of the actual four cousins involved in the production and marketing of the brand (Retief, 2008). The brand experienced excellent volume growth in the Western Cape in 2006, followed by a repeat of this success in Gauteng in 2007 and has more recently had this success expand to the Kwa-Zulu Natal market in 2008. An indication of their success is evident according to the buyer at the Pick 'n Pay supermarket in Soweto's new Maponya Mall who reports that the supermarket sold more units of Four Cousins wine in December 2007 than two litre Coca-Cola.

Originally launched to appeal to young people such as students, first-time wine drinkers, the female market, the elderly, and the cider / RTD market, Four Cousins was not necessarily intended to crack the Black market, however the family are justified in acknowledging their success with the brand, particularly in black townships.

When questioned on the reasons behind the success of Four Cousins, Retief mentions that it's the combination of a number of factors including:

- Larger bottle - Four Cousins is produced in a 1.5 litre bottle
- Wine is bottled in *glass*
- Brand name – Four Cousins is English (not Dutch, Afrikaans or French), easily identifiable and easy to remember
- Label design – comments from township consumers include “...if a person is willing to put their face on their product, it's their stamp of approval and I can therefore trust it”.
- Attributes of the wine – quality, freshness, sweet and low alcohol. Van Loveren produce Four Cousins wine from good quality varieties to which they add concentrated grape juice to sweeten and lower the alcohol of the final product.

The factors that led to the success of Four Cousins verify what the literature and market researchers in South Africa recommend, however despite the inherent qualities of the brand, Retief adds that promotion of the Four Cousins brand in wholesale stores around the country is essential. Van Loveren has not created new distribution networks for distribution to the townships, relying rather on wholesalers for more informal distribution. Owners of wholesale liquor outlets in the townships put a great deal of pressure on producers to discount product in order to sell higher volumes. Furthermore, producers are required to have representatives who call on the wholesale liquor outlets to develop relationships with the buyers and store staff to monitor stock levels and the promotion of the brand in store. Producers also require merchandisers to call on the stores on a regular basis to ensure that the brand is displayed optimally in order to appeal to customers.

A further point made by Retief is that wine is associated with a lot of (unnecessary) pretentiousness and snobbery which is intimidating for inexperienced wine drinkers. The wine industry is fraught with complexity due to the huge number of brands available to consumers which makes browsing through wine shelves daunting. Added to this confusion is the fact that supermarkets categorise wine in cultivars. Van Loveren is attempting to break the barrier of complexity for consumers by providing a small and simple range of quality wine that is easily identifiable on the shelf. Furthermore they encourage their clients to drink Four Cousins in whichever way appeals to them including chilling red wine, adding ice or soda water, with the attitude of “as long as they're drinking wine”.

Retief therefore attributes the success of the Four Cousins brand to the inherent characteristics of the brand and product which appeal to the market as well as Van Loveren's consistent support and effort to promote their brand in stores. Like all good news, the success of Four Cousins has been widely discussed in the wine industry and a competitive response from some of the larger producers, such as Robertson Wines, should be imminent. If they succeed in finding the right elements to appeal to black consumers, then this should contribute to the overall growth of wine consumption in the emerging market.

5.3 Soweto Wine Festival

The Standard Bank Soweto Wine Festival (SWF) was conceived in 2004 by neighbours Lyn Woodward and Mnikelo Mangciphu who decided it was "...the right time to start introducing South Africa's quality wines to the remaining 80% of our population" since wine is not only "...for white South African's to enjoy. It should be a way of life for *all* South Africans" (Quann, 2008). The festival, held in Soweto in September for the last three years, is described as a wine and lifestyle festival with the objective of enabling wine festival-goers to gain knowledge and tasting experience of wines. The festival is unique in its appeal to the black middle class, particularly as it does not carry any snobbery. In fact, the target market of the festival are those who have little or no knowledge of wine or wine tasting experience in order to introduce, establish and grow this market in future. Ticket sales at the festival have increased nearly 200% between 2005 and 2008 indicating that the initiative is still in the early stages of growth (Quann, 2009).

The Soweto wine festival is pioneering in that it is garnering the interest of the South African wine producers to grow consumption amongst the fast-growing black middle class. In return, the festival offers value to wine producers by introducing, establishing, and more recently growing, wine consumption amongst the black middle class (Soweto Wine Festival website, July 2008).

Research conducted by wine.co.za at the SWF in 2006, 2007 and 2008 shows that the festival organisers are reaching their target market (Wine.co.za, 2008; Wine.co.za, 2007; Wine.co.za, 2006). Respondents attending the SWF are classic Black Diamonds in the Start-me-ups, Young Family and Established segments which make up a group of over two million potential new wine consumers in South Africa. In general they are newly educated wine consumers who are perceived to be major influencers among family and friends. It is for this reason that the festival aims to educate these three segments of the Black Diamond market which in turn is expected to drive consumption of wine in the local retail, tourism and hospitality industry, thereby growing the sale of South African wines.

In contrast to the profile of the average wine consumer in South Africa (see Chapter 4), the average respondent attending the SWF is black, between the ages of 20 and 40 years, and has been drinking wine for less than 5 years (14% have been drinking wine for less than one year and 40% have spent between 1-5 years consuming wine). Furthermore, nearly 80% of all the respondents drink wine once a week or on special occasions only. These statistics are a good indicator for future growth potential since the majority of respondents are in the early/new wine drinker stage.

The spending profile of the average respondent at the SWF is further evidence of Black Diamond status – which correlates to the higher LSM groups. Evidence of this is drawn from the fact that 45% of respondents indicated that they spend between R50 and R99 on a bottle of wine for own consumption versus 42% who spend almost double that amount when buying wine as a gift. The average spend per bottle of red wine is R50 - R99 by 45% of respondents with a further 27% reporting higher spend (over R100 per bottle). This indicates that their purchasing behaviour is in the mid to premium range for red wine and respondents may not be very price sensitive in their purchasing decisions.

A slightly different view is reported for white wine, while 44% spend between R50 and R99, a much larger percentage of respondents (36%) spend less than R50 per bottle. Fewer respondents are willing to spend over R100 (approx 23%) on a bottle of white wine. The percentage of respondents willing to spend over R50 on wine has increased by 37% since the 2006 survey which is a positive indicator for wine producers of premium quality wine.

Since enjoyment of wine is enhanced through knowledge, in 2008 a new edutainment feature 'The Wine Class' was added to the SWF programme where attendees tutored 100 festival goers through wine tastings to increase their knowledge of wines and introduce them to the steps required to adequately assess a wine. Groups that were the specific target of the edutainment feature were owners of SMME's in the hospitality industry in the township such as owners of shebeens and taverns, spaza shops, and Bed and Breakfast establishments. The objective was to expose these owners to wine knowledge in order to make wine sales a growing part of their businesses (Quann, 2008).

Evidence of the growing knowledge among the public at the festival was corroborated by one of the exhibitors who mentioned that the level of wine knowledge among the public attending the festival appears to be increasing each year. In the first year questions such as "Do you mix wine with water?" were the order of the day, whereas the following year there were more serious questions posed such as "What variety is this wine?"

In interviews with the wine industry stakeholders, the views expressed were that producers taking part in the wine festival have expended much effort to get their wines established in the mainstream market. While lower priced or discounted wine is what sells volumes, there is growing interest in the premium wine brands and less price sensitivity in purchasing behaviour in comparison to previous years. Table wines have traditionally had slower sales in Soweto however with the growing middle class, table wines are starting to take off and become more acceptable.

5.4 Industry body to drive domestic consumption

Christian Eedes, editor of the Wine Magazine, in an address to wine consumers about the state of exports states that "...what's really holding us back is not so much the quality of our wines, but a co-ordinated, confident generic marketing effort. Blaming under resourced WOSA (a not for profit organisation) doesn't help. If the South African wine industry is to succeed, we not only need wines that have stories behind them but we need to tell those stories in an eloquent and compelling way. We need to be less defensive about our weaknesses and more confident about our strengths. Ultimately, it's a mindset thing" (Eedes, 2008). Eedes' statement is as applicable to the domestic wine consumption market as it is to the export market. The domestic market is at an even greater disadvantage though, having no WOSA-like body tasked with promoting the unique aspects of wine to the domestic community.

In 2004, the South African Wine and Brandy Company funded a position paper which addressed whether the South African wine industry should adopt a generic marketing strategy. The goal of this strategy would be to establish a wine culture in South Africa within which a broader base of the population could participate in consuming wine and thereby grow the wine market (Loubser, 2004). Unfortunately, the wine industry is yet to see any action resulting from the recommendations made in the paper.

Much of the South African wine industry's focus in the last decade has been on export growth and the domestic market has been neglected to a large extent. Advocating for focus on the domestic market does not mean this should occur instead of export focus, but rather in parallel. As discussed in the introduction of this report, the "nature, scope and development of the domestic market have great influence on the strength of an industry. A critical domestic market strengthens competitiveness, keeps the sector alert and lays the foundation for a high level of innovation", Heijbroek (2007).

A further reason for co-ordinating efforts to grow domestic market consumption is that international wine brands are increasingly finding their way onto our supermarket shelves as a result of more open trade agreements. This is particularly the case with wines from other New World countries such as Chile and Argentina who compete directly on price with South African wines.

Discussions with the industry stakeholders on the topic of initiating an institute or organisation focused on driving domestic demand drew mixed but vociferous responses. Most believe that it would be beneficial for an effectual body to pull the currently fragmented wine farms and producers together to form a unified face of South African wine. The ability to establish, fund and maintain such an organisation that produces measurable results in the industry is complex and challenging, and in one person's opinion "worth a large sum of money". Adding to the issues are the various legal challenges surrounding public marketing of alcohol.

The interviewees expressed that the initiative has been proposed before but with no real action taken in the industry. Some of those interviewed called for a truly independent body outside the political realm of the wine industry that has sufficient authority to make a difference to the industry. Others were concerned about the funding of such a body, indicating that this responsibility is likely to once again fall to the producers. One industry stakeholder believed that the government should support the initiative whereas another believed it is completely up to the individual producers to promote their own brands, with the larger producers like Distell opening the door for the smaller producers to tap into the emerging market. There is also evidence of pockets of enthusiasm amongst the wine producers in certain regions to come together and support a common goal to grow domestic consumption, for example: the Wine Route Association feels strongly about branding the wine routes and developing wine consumption through educational experiences.

One industry stakeholder mentioned that it should be the responsibility of this new institute to research cultural usage of wine, the consumer behaviour surrounding alcoholic beverages, and translate this into what attributes of wine are required by the emerging wine market. This research should then be made available to producers to reposition their brands in the market.

While fraught with challenges, the establishment of an institute of some kind is probably necessary. Given the success of Australia in growing their domestic consumption, it is possible for South Africa to achieve similar success; however the wine industry stakeholders need to pull together for the greater good of the industry rather than for individual gain.

5.5 Summary of interventions to increase domestic consumption

In this chapter the perspectives of industry stakeholders were presented to lead a discussion of what current initiatives are being pursued in the market to drive domestic consumption. While the general opinion is that not enough is being done by producers to target the emerging wine consumer, there is definite evidence of success in the market, particularly through the efforts of Distell and Van Loveren. These are, however, too sporadic for the potential size of the market.

The efforts of the organisers of the Soweto Wine Festival are also recognised and acknowledged as playing an important role in stimulating domestic wine consumption. Whilst still in its infancy, this festival is getting lots of media attention, growing attendance figures each year, and provides evidence of a small but growing band of knowledge about wine amongst black middle class consumers.

Finally, this chapter provided arguments for the development of an industry body whose purpose it is to drive domestic consumption of wine. The various roles of such a body were also briefly put forward. Despite this not being a unique opinion in the wine community, it nevertheless has not yet been pursued by the industry.

6 Recommendations for future initiatives and intervention

Given the statistics and trends presented in the previous chapters of this report as well as the analysis of factors influencing growing wine consumption in other countries, the challenge for South African remains 'What can be done to further stimulate consumption in South Africa?'. Related to this is the question 'What factors are lacking in our approach to the emerging market?'

This chapter makes recommendations for where the future industry focus and interventions should lie. Recommendations are presented in such a way that assumes that *all* industry stakeholders have a role to play in this regard and that each is important in contributing to the establishment of a wine community with a common goal. It is only with the collective effort of all stakeholders that common goals can be reached.

6.1 Recommendations

Four main interventions are recommended based on the research and opinions presented in this paper:

1. The first step in increasing consumption is to set national, mutually shared goals for the growth of the domestic market that the wine community feels are sustainable and worth backing. The setting of these goals should be approached independently of decisions regarding which industry body will ultimately be responsible for attaining the goals. To ensure that the goal setting process is all encompassing and takes into account the views of all stakeholders, the selection of stakeholders setting the national goals should be from a cross section of the industry. Stakeholders should include government, the necessary wine industry institutions, representatives from large *and* small producers, representatives from the retail industry (supermarkets and wholesalers), market researchers, and educators.

The types of goals that are required to be set include:

- Targets for per capita consumption by agreed upon dates in the future, e.g. 2015 and 2020
- Who are the relevant stakeholders that need to drive the above goal and what role should each play in contributing to the achievement of the goal? For example: What is the role of large producers, small producers, market research organisations, educators, wine festival organisers, wholesalers, supermarkets, wine institutions / industry bodies, government, the hospitality industry (restaurants, hotels, bars) and distributors?
- What are the main interventions/actions to be taken by each stakeholder listed above that will result in the attainment of the per capita consumption growth? Table 13 provides a few examples of the various actions that could be taken by the relevant stakeholders in the wine industry.

Table 13: Examples of actions to be taken by the wine industry

Stakeholder	Intervention
Producers e.g. Distell, DGB, Robertson Wines, etc.	Studies have shown that consumers are clearly not in touch with brands in wine anywhere near the same extent that they are in other consumer goods categories – BUT this creates a massive opportunity for the producer who recognises this and acts on it. Producers should start rationalizing product portfolios as there are too many wine brands still coming onto the market. Producers should also ensure that there are branded products available for more sophisticated consumers (possibly from the suburbs) who frequent taverns and look for a premium product.
Distributors	Make wine more accessible and familiar by improving supply to township taverns. Release pressure on reps to sell wide in the mainstream market. Promote and advocate the licensing of shebeens to increase the accessibility of wine to the emerging market. Education of township tavern staff.
Educators e.g. Cape Wine Academy; Hospitality / catering schools	Wine is a complex category with a huge number of brands and to complicate it even further a number of cultivars this results in lack of product knowledge. Educators should develop relevant course material aimed at the right level of learner, low snob-value appeal, instill a ‘seek’ and thirst for more knowledge and tasting experience (wine appreciation), responsible usage of wine, and aim to decrease the overwhelming feeling people get when faced with a wine list / supermarket aisle of wines.
Hospitality Industry e.g. Hotels, Restaurants, Bars	The restaurant trade is guilty of making large margins on wines however not doing much to educate their staff to drive wine sales. Set minimum requirements expected of staff that serves food and wine, such as: knowledge of the origin of wine, anecdotes about wine maker or farm, the level of quality of the wine, possible food pairing matches. Offer a ‘taste-before-you-buy’ opportunity– free or at cost. Exploit the lifestyle trend of wine with food by matching quality wines by the glass with different food courses on the menu.
Wine Clubs e.g. Cellar Rats, VATS	Existing long-standing wine clubs to partner with a group of black diamonds in townships/suburbs to assist in setting up wine clubs. Membership drives to the emerging middle class living in the Suburbs. Wine distributors to support these newly established clubs in the townships by presenting tutored tastings (wine education and wine tasting expertise).
Media e.g. SABC, eTV	The media’s role is to produce and flight programmes about wine aimed at the entry level /occasional wine drinker with the objective of enhancing knowledge of wine. For example, the BBC Food Channel hosts a show called the ‘Thirsty Traveller’.

<p>Supermarkets e.g. Pick n Pay, Spar, Checkers</p>	<p>Supermarkets can do much to demystify the confusing array of wines labels on shelves by arranging wines not by brand or variety but rather by function and price. E.g.: Arrange wines into lifestyle categories that appeal to different segments such as 'Girls Night in', 'Everyday wine', 'Dinner Party wine' (these categories need customized cultural appeal). Demystify wine labels & wine categories by providing informed wine stewards to assist customers. Remove intimidation barriers that make consumers feel insecure and unsure about purchasing wine. The more upmarket retailers could offer wine consultations to the market.</p>
<p>Wine Festivals e.g. Soweto Wine Festival, Winex, Veritas, Stellenbosch Wine Festival</p>	<p>Determine the feasibility of extending the SWF to other townships in SA. Media coverage of Soweto Wine Festival in other provinces to encourage increased attendance. Other wine festivals need to increase their appeal to Black Diamonds – specifically Winex which is hosted in JHB and CT, and Veritas which is hosted in JHB, CT and Durban. Provide more edutainment features at festivals.</p>

2. The second recommendation made is to review the structure of the various wine industry bodies, institutions, organisations and foundations. Measure the quantitative and qualitative contribution they make to the industry, their efficacy, and review their strategic focus. A re-organisation of the industry structure may be necessary including the clarification of roles, communication processes, forums and performance management measures. Ensure that those industry bodies that continue to exist after this re-structuring exercise each have a complimentary strategic focus and are driven to provide value to the industry.

Should it be necessary to create an industry funded body responsible for implementation and delivery of the goals set for the domestic market, then this should be done. The type of goals set by the industry (under recommendation 1) will necessitate the form and structure of the body created and tasked with delivery and accountability as well as the degree and method of funding required.

3. While efforts are being made to improve distribution of wines to tavern owners in townships, much can still be improved, particularly to drive brand awareness and ensure that target brands are readily available. It is therefore recommended that the industry establish a reliable formal township *market distribution strategy* by understanding the current challenges in accessing this market and putting structures and processes in place to ensure the regular delivery of wine of a consistent quality to the township market. In addition to a distribution strategy, a proper infrastructure should be created to measure the wine market in townships to expose the potential in these segments of the market and to measure progress, monitor wine purchase behaviour and attitudes to wine over time.

Commission based entrepreneurial sales teams can be established in the townships or a formalised distribution network can be created to supply shebeens. Either way, a proper distribution strategy is essential. Further interventions in the townships, such as those presented in Table 13 can then leverage off the impact of the new market distribution strategy.

Wine is a complicated category with too many brands as well as the added complexity of varieties, resulting in poor product knowledge among consumers. While the accessibility of wines can be addressed through an improved formalised distribution strategy, producers also need to put resources behind those brands through *promotional activity* on a regular basis. Promotion requires substantial marketing budget and therefore success in the mainstream market is mainly the responsibility of the big brands.

4. The last recommendation relates to the adoption of the European perspective of 'table wine'. In South Africa, 'table wine' is referred to any wine that is not fortified, whereas in the European Union, 'table wine' has a specific connotation that is applied to all wines that are not designated as superior quality wine. In France, they refer to Vin de Table, in Germany Tafelwein, in Spain Vihno de Mesa and in Italy Vino da Tavola. Each of these countries uses the description Table Wine as a classification for a particular quality of wine and in each country there are specific laws guiding the production of table wines. Furthermore, in many of the above mentioned countries, the table wine category is more often where the highest volume of wine sales are made. This recommendation does not advocate the mass production of inferior quality of wine for punting to the emerging wine market, however it proposes the establishment of a market niche for the manufacture, supply, licensing and marketing of 'table wine' as a category to South Africans.

Given the success of specific brands such as Van Loveren's Four Cousins brands, the obvious qualities of South African 'table wine' should have the following redeeming features:

- Lower in alcohol
- Sold in glass bottles
- Appropriately branded and labelled to come across as appealing but not intimidating
- Appropriately priced (in the R25-R35 range).

Given the above recommendations, South Africa is likely to see a phased approach to growth in domestic consumption. The first phase, *volume growth* entails more people tasting and drinking wine for the first time which is synonymous with penetrating new markets and expanding existing markets. The second phase, *value growth* will occur when greater emphasis is placed on building brand strength, sector share and margins. The final phase, *pre-eminence*, will be reached when South Africa has established brand leadership in those specific market segments that appeal to the emerging Black wine consumer.

6.2 Summary of future initiatives and interventions

This chapter presented four main recommendations that have far reaching implications for the wine industry and the potential benefits for growing wine consumption in the domestic market. The point was made that a collective effort is required to effect changes on a wide scale across the industry. The chapter also described the potential role of each stakeholder in the achievement of common industry goals.

7. Summary and conclusions

The objective of this paper was to outline global wine consumption trends and explore the various factors which influence these trends in countries around the world and then make recommendations for South Africa. By reviewing the literature in Chapter 2, an overall picture of global wine consumption was presented, i.e. that consumption is declining in general over most of Europe but is growing in pockets of the world such as the UK, USA, India, China and Russia. South Africa was shown to have gradual declining wine consumption in more recent years, which does not bode well for the domestic wine industry despite significant export growth.

Four countries currently experiencing substantial growth in wine consumption were selected and presented in Chapter 3 to attempt to establish the factors responsible for their growth. A number of common factors emerged from the analysis including: improvement in the socio-economic status of the population due to rising GDP, shifting consumer attitudes to wine, and the promotion of the health aspects of wine, amongst others. While some of the countries have organised structures, networks and initiatives to support and guide domestic consumption to agreed targets, other countries are still experiencing basic challenges such as high import tariffs, poor distribution networks and lack of a coordinated government support. The country analysis was conducted in the hope that relevant aspects of the interventions in each country may be applied to the South African context in order to grow consumption of wine.

Once the global and South African view of consumption had been established, it was then necessary to present a comprehensive view of the South African consumer including alcohol consumption behaviour trends in Chapter 4. A detailed description of the emerging market wine consumer in South Africa was also provided to indicate the particular challenges facing producers attempting to breach the various segments of this market.

Chapter 5 reviewed the current initiatives and interventions by the wine industry to increase domestic consumption of wine and drew on the opinions and perspectives of wine industry stakeholders. The general industry opinion is that not enough is being done by producers to target emerging wine consumers; however there is evidence of success in the market, particularly through the efforts of Distell and Van Loveren. It was concluded though that these efforts are insufficient in comparison with the potential size of the market. Chapter 5 also proposed the development and role definition of an industry body whose sole purpose is to drive domestic consumption of wine.

Conclusions and recommendations were made in Chapter 6 with the salient points being that the South African wine community requires *mutually shared goals* for growing domestic consumption, that this should be a *collective effort*, and that these goals may necessitate the *formation of an industry body* tasked with delivery and accountability to drive the attainment of the goals. A further recommendation was to establish a reliable formal township *market distribution strategy and infrastructure* by understanding the current challenges in accessing this market and putting structures and processes in place to ensure the regular delivery of wine of a consistent quality to the township market.

Finally, the establishment of a *market niche* for the manufacture, supply, licensing and marketing of '*table wine*' as a category was proposed.

A final look at the case for driving domestic consumption in South Africa in 2008 shows that consumer spending is being curbed, wine exports are plagued by the impact of exchange rate risk, transport costs are rapidly escalating, and there is ever increasing competition from New World wine producing countries. This is a lucrative and opportune time for the South African wine community to grasp the reins and compete head on for share of throat.

References

- ABR, 2008. South African Alcoholic Beverage Review - 2007, Ramsay Son and Parker.
- Australian Bureau of Statistics, 2006. Australian Wine and Grape Industry [Online]. Available: www.abs.gov.au.
- Australian Wine Online, 2008. Strategy 2025 [Online]. Available: http://www.winetitles.com.au/awol/overview/strategy2025/2025_1.asp
- BFAP, 2007. South African Agricultural Baseline (BFAP). *Bureau for Food and Agricultural Policy*, June 2007.
- Budd, L. 2008. Telephonic Interview. 22 July.
- Chandra, A. 2004. Wine Market Summary - Update [Online]. Available: <http://indianwine.com/Alok/winemarketinginindia20032004.htm>. September, 2004.
- Chang, H., Griffith, G. & Bettington, N. 2002. The Demand for Wine in Australia Using a Systems Approach: Industry Implications. *Agribusiness Review*, vol 10, paper 9, ISSN 1442-6951 [Online]. Available: <http://www.agrifood.info/review/2002/Chang.html>.
- Quann, V. 2008. Q&A session with Marilyn Cooper and Mnikelo Mangciphu for The South African magazine, *Hot Salsa Media*, South Africa.
- Customs Associates Limited, 2001. Study on the competition of alcoholic drinks, *Customs Associates Limited: EU Taxation*, February, 2001 [Online]. Available: www.europe.eutaxation/customsresourcesdocumentsstudy
- Du Toit, E. 2008. Telephonic Interview. 21 July.
- Economist.com. 2009. Tippling less? How your wine drinking habits are changing [Online]. 21 January. Available: <http://www.economist.com/search/search.cfm?rv=2&q=tippling+less&area=1&x=11&y=5>
- Eedes, C. 2008. GULP! Electronic newsletter, 2008/07/18.
- Euromonitor, 2008. Alcoholic Drinks in China – Report [Online]. Available: http://www.euromonitor.com/Alcoholic_Drinks_in_China
- Euromonitor, 2006. The World Market for Wine Report [Online]. 17 Nov 2006. Available: http://www.euromonitor.com/Exclusive_Summary_The_World_Market_for_Wine
- Global Industry Analysts, 2008. Wine - A Global Strategic Business Report, MCP-2227. *Global Industry Analysts*, March.
- Green, K. 2006. Marketing a Wine Lifestyle in South Africa. *CWM Seminar*, SAWIS Library.

Guinand, L. & Marti, R. 2007. Should you export to India? Wine is avant-garde in the cosmopolitan, thriving country. *Wines & Vines*, January.

Heijbroek, A. 2007. Changing competitiveness in the wine industry: The rise and fall of wine countries. *Rabobank International*, January, 2007.

Hermoso, J. M. 2007. IWSR Drinks Record, October 2007, Market Report: Hong Kong wine market boosted by Tax Cut [Online]. Available: <http://www.iwsr.co.uk/PDF/IWSR%20Drinks%20Record%20-%20September%202007.pdf>

Hodgen, D. 2005. US Wine Industry Outlook. *US Department of Commerce, Office of Health and Consumer Goods*, 8 July, 2005.

Jacob, C. 2008. The Indian wine industry uncorked: Driven by Demand. *Rabobank International*, February, 2008.

Jun, C. 15/09/2003. Who Can Change Chinese People's Consumption Patterns [Online]? Available: <http://www.winebusiness.com/wbm/?go=getArticle&dataId=27898>

Levine, M. 2004. Wine Industry Outlook: Consumption Demographics, Market Segmentation, Trends and Opportunities. *Wine Industry Outlook Conference*, Darling Harbour, Sydney, Australia, 25 November, 2004.

Loubser, S.S. 2004. Position Paper: A generic market development strategy for South Africa. *South African Wine and Brandy Company*.

Lunardo, R. & Guerinot, R. 2007. The influence of label on wine consumption: its effects on young consumers' perception of authenticity and purchasing behaviour. *University of Reims, France*. Contributed Paper prepared for presentation at the 105th EAAE Seminar, 'International Marketing and International Trade of Quality Food Products', Bologna, Italy, 8-10 March, 2007.

Mager, A. 2004. White liquor hits black livers: meanings of excessive liquor consumption in South Africa in the second half of the twentieth century. *Social Science & Medicine*, vol 59, Issue 4, August, p 735-751.

Mangin, V. 27/11/2008. Fake liquor trade booms as China's thirst grows [Online]. Available: <http://www.winechina.com/EN/read.asp?id=200811718>

Martins, J. 2004. Expenditure of Households in Gauteng by Expenditure item and type of outlet. *Bureau of Market Research (BMR) of the University of South Africa (Unisa)*, Research Report no 329.

Mangciphu, M. 2009. Telephonic Interview. 23 January.

Morgethal, A. (2009). Written response to interview questions. 29 July.

Organisation Internationale de la Vigne et du Vin, 2006. Situation Report for the world vitivinicultural sector in 2004. *International Organisation of Vine and Wine*. Presentation at Budapest conference, Organisation Internationale de la Vigne et du Vin (O.I.V.).

Organisation Internationale de la Vigne et du Vin, 2007. State of Vitiviniculture World Report, World Comparisons. [Online]. Available: <http://www.winebiz.com.au/statistics/world.asp>

Organisation Internationale de la Vigne et du Vin, 2008. State of Vitiviniculture World Report - March. [Online]. Available: http://news.reseau-concept.net/images/oiv_uk/Client/2008_note_conj_mars_EN.pdf

Organisation Internationale de la Vigne et du Vin, 2008. State of Conditions Report - October. [Online]. Available: http://news.reseau-concept.net/images/oiv_uk/client/2008_point_conj_octobre_EN.pdf

Organisation Internationale de la Vigne et du Vin, 2008. Presentation by Director General Mr Ferderico Castellucci in Verona, Italy – 16 June. [Online]. Available: http://news.reseau-concept.net/pls/news/p_entree?i_sid=644679623789874037861435&i_type_edition_id=20508&i_section_id=20510&i_lang=33

Pocock, T. 2008. Telephonic Interview. 23 July.

Quann, V. 2009. *Short History: The Standard Bank Soweto Wine Festival*. Hot Salsa Media.

Retief, P. 2008. Telephonic Interview. 23 July.

Rietoff, G. 2009. Telephonic Interview. 19 January.

Roux, J. 2008. Telephonic interview. 31 July.

SAARF AMPS[®], 2007. SAARF Trends 2001 - 2007. *South African Advertising and Research Foundation*. Johannesburg: South African Advertising Research Foundation, December 2007.

SAWIS, 2007. SA Wine Industry Statistics No. 31: Annual report. *South African Wine Industry Information and Systems*. SAWIS Library.

SAWIS, 2008. SA Wine Industry Statistics No. 32: Annual report. *South African Wine Industry Information and Systems*. Available: http://www.sawis.co.za/SAWISPortal/uploads/Book_2008_web.pdf

SAWIS, 2008. Market Predictions. *South African Wine Industry Information and Systems*. SAWIS Library.

SAWIS, 2008. South African Export Volumes. *South African Wine Industry Information and Systems*. SAWIS Library.

- Seoposengwe, D. 2009. Telephonic interview. 28 January.
- Singh, M. 2005. *Wine Wisdom: Buying and Drinking Wine in India*. Penguin, India.
- Smith, A. 2007. Cracking China, Interview with ASC Fine Wines Owner - Don St Pierre Jr, *IWSR Drinks Record: Wine Review*, October 2007 [Online]. Available: <http://www.iwsr.co.uk/PDF/IWSR%20Drinks%20Record%20-%20October%202007.pdf>
- SommelierIndia, 2008. Indian wine industry to explode according to industry reports [Online]. Available: <http://www.rncos.com/Blog/2008/07/Indians-to-Consume-15-Million-Liter-Wine-This-Year>
- Soweto Wine Festival website, July 2008. [Online]. Available: www.sowetowinefestival.co.za/about.htm
- Statistics South Africa, 2008. Statistical release PO302 on 30 July 2008, Mid-year population estimates, [Online]. Available: <http://www.statssa.gov.za/publications/P0302/P03022008.pdf>
- Statistics South Africa, 2007. Income and expenditure of households 2005/2006: Analysis of results. *Statistics South Africa*. Pretoria: Statistics South Africa, Report No. 01-00-01, 2008.
- Steinberger, M. 2008. China's Newfound Obsession with Wine [Online]. Available: <http://www.winechina.com/EN/read.asp?id=200811696>
- Suen, S. 26/8/2008. China to Be the Eighth Biggest Wine Consumption Market by 2012 [Online]. Available: <http://www.winechina.com/en/read.asp?id=200808630>
- Suen, S. 25/6/2008. Global Wine Consumption Inches Ahead - China Developing Rapidly, adapted from *winespectator* [Online]. Available: <http://www.winechina.com/en/read.asp?id=200806578>
- Taybakhtina, O. 2004. Russian Federation Wine Market Brief (GAIN). *Global Agriculture Information Network*, Report Number: RS4319, 10 Jan 2004.
- UCT Unilever Institute of Strategic Marketing, 2007. Black Diamond Presentation. *UCT Unilever Institute of Strategic Marketing*.
- Visser, K. 2008. Telephonic Interview. 21 July.
- Australian Dept. of Foreign Affairs and Trade, 2008. Australian Wine and Grape Industry - 2007 [Online]. Available: <http://www.dfat.gov.au/facts/wine.html>.
- White, C. 2008. Telephonic Interview. 23 July.
- Wine.co.za, 2006. Soweto Wine Festival Research Report, *Wine.co.za*.
- Wine.co.za, 2007. Soweto Wine Festival Research Report, *Wine.co.za*.

Wine.co.za, 2008. Soweto Wine Festival Research Report, *Wine.co.za*.

Wine Institute of California, 2005. TDA, Trade Data and Analysis, World wine consumption statistics. [Online]. Available: <http://www.wineinstitute.org/files/>.

Winespectator, 2008. Electronic citation: Global Wine Consumption Inches Ahead, The big potential profits for wine companies lie in Asia, and in mergers and consolidation. [Online]. Available: <http://www.winespectator.com/Wine/Features/0,1197,4454,00.html>, 24 June, 2008.

Wittwer, G. & Rothfield, J. 2005. Projecting the world wine market from 2003 to 2010. *Australasian Agribusiness Review*, vol 13, paper 21, ISSN 1442-6951.