



## ProWein Business Report - New 2018 Issue

### The Globally Most Comprehensive Trend Barometer of the International Wine Business

Commissioned by ProWein for the second time, the Geisenheim University has again surveyed more than 2,300 experts in the wine industry from 46 countries on international wine markets, marketing trends, developments in online wine sales and the economic situation. The survey conducted in mid 2018 was once more met with strong interest in the industry. Since the first survey in 2017 the number of participants increased by 60% from 1,487 to 2,364. This makes the ProWein Business Report the globally most comprehensive trend barometer of the international wine industry.

The study covers the complete value chain of wine. Respondents included both wine producers (wine-growing estates, wineries, cooperatives) and intermediates (exporters and importers) and marketers (wholesalers, specialist retailers, hotels, and gastronomy). The combination of the various views of producers, dealers and markets collected over several years constitutes a unique barometer for the industry.

### Attractiveness of Export Markets

#### 1) *For the first time China is globally the most attractive export market for wine*

Asked about the current attraction of markets exporters and wine producers rate China as the globally most attractive export market, followed by Japan, Hong Kong, Scandinavia, USA, and Canada. Compared to the survey conducted in the previous year China has moved up to the top from the 9th place. This subjective assessment of market players corresponds to the reports about China's rising import demand and the high increases in volume and value of exports to China, especially from Australia, France and Chile.

Within one year the ranking of currently most attractive export markets has changed. Alongside China, Canada and Australia have risen to the Top 7

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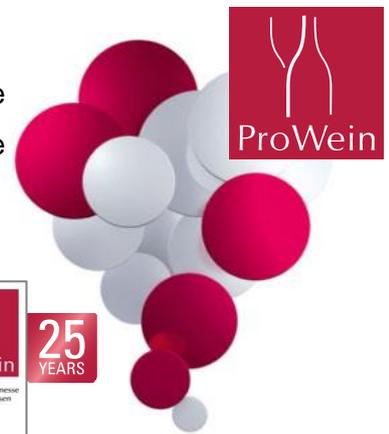
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while South Korea, Poland and Switzerland dropped in the listing. The USA are still a highly attractive export market and have only lost a little ground descending from rank 4 to rank 5.



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2) *Since 2017 the market attractiveness of Russia, China and Brazil has increased the most*

Compared to the first ProWein Business Report 2017 the strongest relative increase in market attractiveness was measured for Russia, China and Brazil. Russia rose from rank 16 to rank 11 and Brazil from rank 15 to rank 13. This means, part of the expectations reported in 2017 (that these markets would strongly increase in attractiveness) have already turned into reality. These high-population and big countries of the BRIC group hold an extraordinarily high potential for wine exports. However, tapping into this potential is also associated with high market risks due to in part political and economic instability.

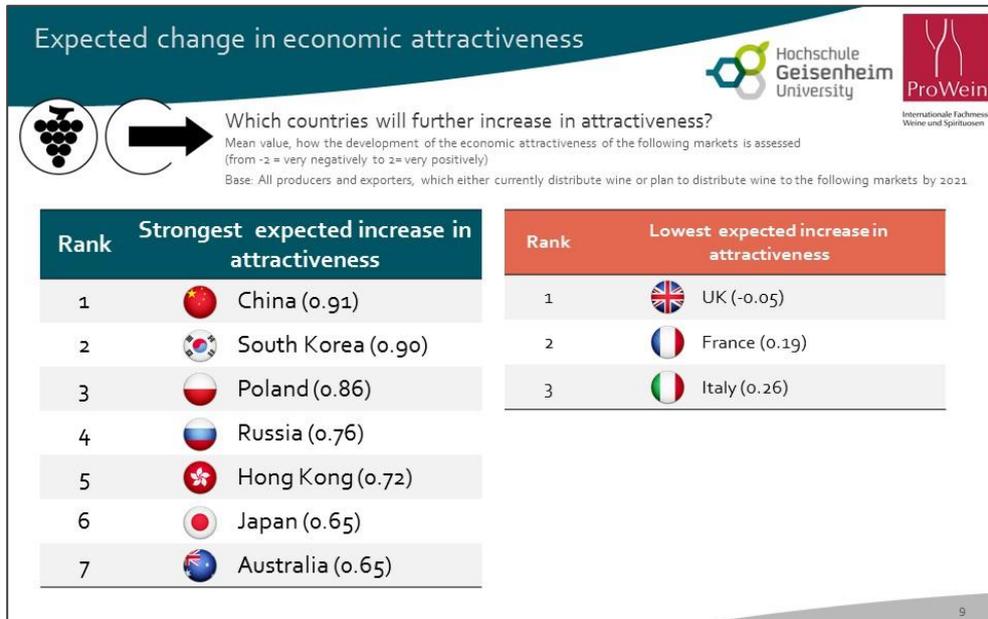
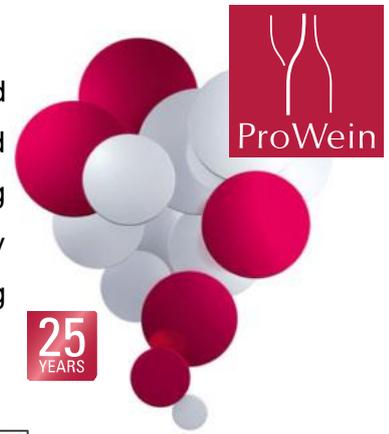
Of the traditionally established markets Italy and France have slightly recovered against 2017. The Netherlands, South Korea and Switzerland lost some market attractiveness compared to 2017.

3) *Market attractiveness expected to grow most for China, South Korea and Poland by 2021*

For the coming three years exporters and producers expect market attractiveness to go up most for China, South Korea and Poland, followed by Russia, Hong Kong, Japan and Australia. The Top 7 are followed very closely by the two important North American markets – USA and Canada – where wine consumption continues to rise.



This means, China is the wine market with the highest current and expected market attractiveness in future. As a result especially Asian and Eastern European countries will gain even further importance. Handling these geographically and culturally distant markets in Asia successfully will prove a major challenge for European wine producers over the coming years.



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*4) The United Kingdom is the country with the weakest current situation and the lowest expectations for the future*

In comparison with 2017 the attractiveness of the UK wine market has deteriorated further while the perceived risk has gone up. The UK also posts the worst expected development until 2021. This weak position is due to several factors. The constantly rising alcohol tax and the amount of shelf space lost for wine through the competition between established retail formats and discount stores makes this market increasingly difficult for producers. Add to this the economic and legal uncertainties caused by the imminent BREXIT, the modalities of which have still not been clarified yet. After the UK the traditional wine markets France and Italy are the countries for which only very little increase in attractiveness is expected.

*5) The overwhelming majority of exporters focus on unlocking new wine markets*

Eight out of ten producers plan to expand their export activities to new markets over the next 3 years – a high share that has remained unchanged versus 2017. The domestic markets of the biggest wine producers (Spain, Italy, France) are saturated with a rather declining

trend. Therefore the export to new growth markets is the only way to compensate for these losses and generate growth. This also means the international wine trade will continue gaining in volume and importance. This raises the question long term, whether and when this growth trend will level off, in case the new wine markets build and/or expand their own wine production as is the case in China.

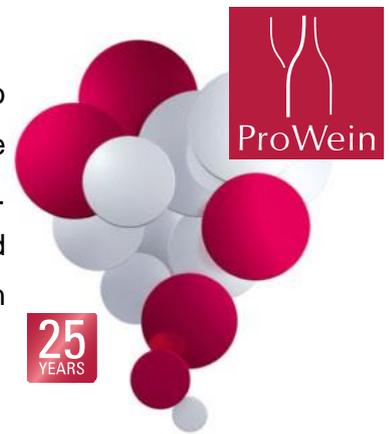
### **New emerging export markets for wine**

#### *6) Singapore exhibits highest potential for the coming five years*

Polled about the highest potential for new wine markets over the coming five years, wine exporters mentioned Singapore, the Czech Republic and Taiwan most often. Here the list of new emerging wine markets is headed by smaller, easily governable and easier to build up markets that are relatively far developed in economic terms and stable. In contrast to this, fewer exporters see imminent potential for Vietnam, India, Thailand, Malaysia, Philippines and Indonesia – countries that share a bigger market size, a lower economic development status and are more difficult to penetrate. The portion of the population that can afford wine is still smaller on these markets than in better developed countries. Here a long-term perspective is needed to overcome existing barriers (taxes on wine imports, diversity of regional laws). If the high expectations for the leading Asian markets China, South Korea, Hong Kong and Japan prove realistic in future positive spillover effects within Asia can also be expected.

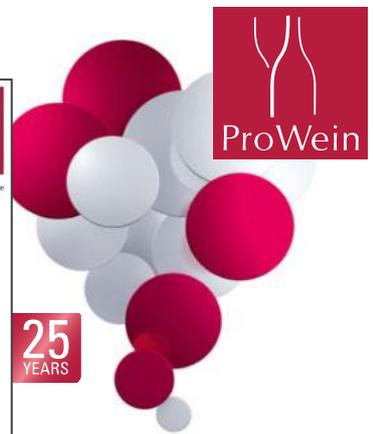
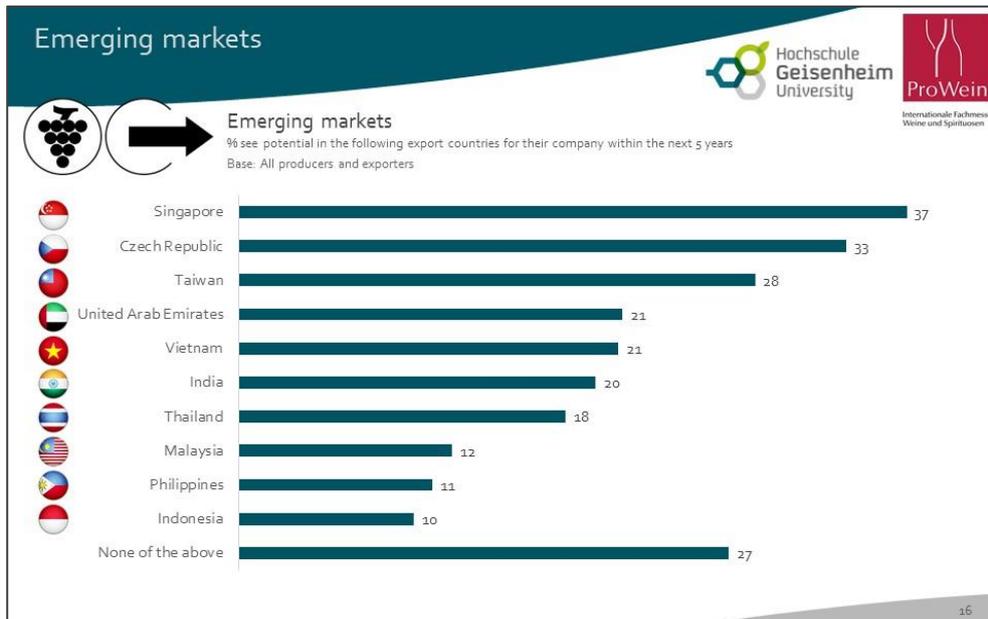
India is the number one among the emerging export markets for wine producers from the New World - Australia, USA, South Africa etc. The cultural links in the Commonwealth and the common language make it easier for these countries to develop India.

One in four of the polled producers is still hesitant at present and does not see a potential market entry for any of these emerging markets over the coming five years. It will be interesting to watch further developments here.



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### 7) United Arab Emirates surprisingly in 4th place

It may come as a surprise at first sight that the United Arab Emirates (UAE) occupy rank 4 among the emerging wine markets. This position among the top 4 illustrates the rising importance of wine and also other high-quality food and delicatessen in this rising gateway to the Arab Peninsula for both tourists and expatriates. This positive ranking is in line with other indicators such as the number of participants in WSET courses from the UAE.



### Retailers' interest in wine origins

#### 8) Wine retailers are looking for new wine origins

Nearly one in two wine retailers who visits ProWein plans to expand his range with wines from new origins. Wine origins less wide spread so far show a particularly high potential to be listed in the specialist wine retailers' and gastronomy portfolios.

#### 9) Portugal, South Africa and Argentina favoured as additions to existing portfolios

One in five specialist wine retailers and importers intend to add wines from Portugal, South Africa and Argentina to their ranges. These new wine origins are to complete or partially replace retailers' existing ranges which were so far dominated by Italy, France and Spain.

## Big differences between sales markets

The various wine markets differ in terms of the new origins in demand by retailers and marketers.



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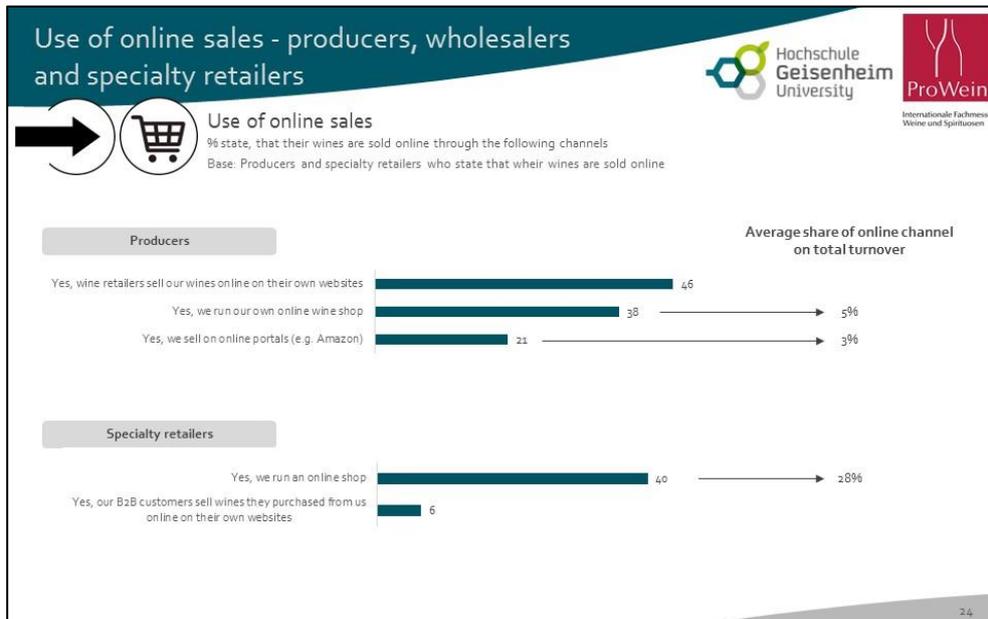
This is due to a variety of reasons such as geographical proximity (Slovenian wine in Central Europe, German wine in Eastern Europe, Chilean wine in North America), the trend towards diversity and “sensorially easy-to-access” wines from the New World (Eastern Europe, Southern Europe) as well as the aspiration to stand out from other retailers and find niches in highly competitive markets (e.g. Germany).



## The importance of online sales

### 10) Online sales potential exploited to various extents so far

The share of producers and specialist wine retailers who run their own webshop for wine is similarly high at 38% and 40%. However, the relative share of sales generated by these webshops differs widely. On average wine specialist retailers sell more than one fourth of their products online (28%) while producers only handle 5% of their sales online. The reasons are the strengths of the wine specialist retailer such as the wider portfolio of wines, the special focus on end users and the expert use of online marketing. By comparison only one in five producers uses online portals (e.g. Amazon, other portals specializing in wine such as Vicampo etc.), to reach end users.



*All market players expect online trade to grow further*

Both producers and specialist wine retailers expect online sales of wine to increase further. They rate the growth opportunities for retailers' and producers' web shops as high as that of portals (e.g. Amazon, Ebay). While general portals have gained market shares for other product groups industry experts regard emotionally appealing solutions as necessary for the demanding product wine. It will remain exciting to see in future how general portals will develop relative to wine retailers' specialized web shops.

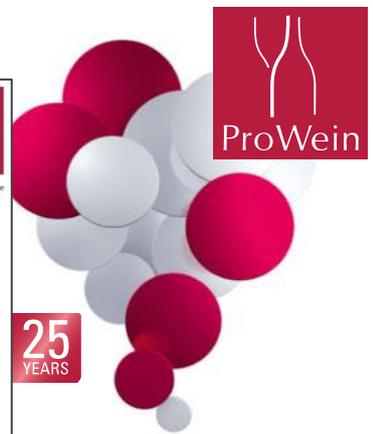
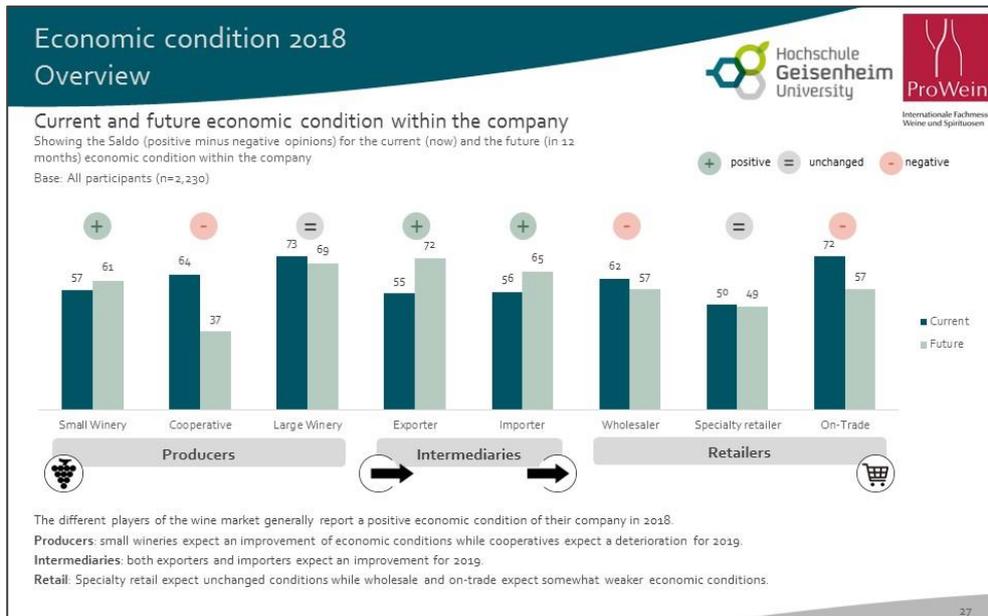
The overwhelming part of specialist wine retailers agree that the operation of their web shop involves a lot of work and that comparability of prices on the Web will make profits dwindle even further. Which is why a further increase in online wine sales is seen more critically by wine retailers than by producers who are supposedly not so aware of the workload associated with online marketing yet. Specialist wine retailers, however, have already largely exploited the available potential and can only realise increases at high costs.

**The economic situation of the wine industry**

*11) The wine industry looks to the future with optimism overall*

The survey included especially industry leaders. These have positive expectations for the economic developments in 2019 but there are differences between producers, intermediate dealers and marketers.





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Among producers large wineries are most optimistic. Wine-growing estates see the situation as stable while cooperatives expect the economic situation to deteriorate markedly. Importers and exporters expect the economic situation to improve in 2019 after a deterioration between 2017 and 2018. In 2018 the situation proved better than expected in 2017 for wholesalers and gastronomy but the estimates for 2019 are slightly more pessimistic again. Specialist wine retailers rate the situation as stable.



### 12) Differences between producers by country of origin

The high expectations Italian producers had in 2017 fulfilled in 2018 and the new year 2019 is seen on the same high level. The high expectations of Spanish producers for 2017 were not fulfilled by the extraordinarily small harvest in 2017 but the outlook for 2019 is positive. French producers have a slightly positive outlook for 2019 after unchanged developments between 2017 and 2018. For German producers the small harvest in 2017 contributed to a slightly negative development - their outlook for 2019 is the less positive of all countries. It should be noted that the results in part also reflect different mentalities in different countries of origin. Alongside realistic economic reasons these different expectations definitely also reflect the “German angst” and the “optimism of the South”.

### Summary

In the second issue of the ProWein Business Report we could observe how part of the future expectations measured in the first issue materialised within one year. The expected rise of China took place faster than

expected and the most populous country on earth already ranks first of the currently and future most attractive wine markets in the world. It remains exciting to see how the hopes in the emerging new wine markets such as Vietnam, India and Thailand will turn into reality in future. All expectations have in common that the focus of the wine world increasingly shifts away from the traditional wine production countries and to the East, Asia and in part also Eastern Europe. This is also strongly linked with the new trading formats for wine. While only part of the wine trade on traditional markets is online, Asia has leapfrogged several steps in this development and holds markedly higher online shares also because wine consumers are predominantly young. Over the next years it will be of decisive importance to the industry to find solutions for the in part cut-throat price competition caused by the high market transparency on the Web. The USA and Canada are the third important growth impetus for the international wine sector next to Asia as the populous business engine and Eastern Europe located close to the classic production countries.

The study was conducted by the Institute for Wine and Beverage Business Research at the Geisenheim University, headed by Prof. Dr. Simone Loose and her team and commissioned by ProWein. ProWein and Geisenheim University look forward to the continued compilation of the ProWein Business Report in coming years. This offers the possibility to verify whether the current expectations will materialize in future and which currently unexpected changes will emerge. In addition to a long-term series of an international market barometer interesting special themes will be included in the surveys every year. We would like to thank the participants of the survey and hope for continued strong participation among wine producers and marketers.

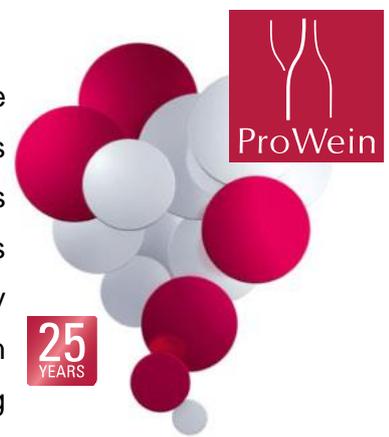
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