



Exporting Wine
to the United Kingdom:

A Guide for Virginia Wineries

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1 Introduction

Exporting wine to another country is very different from selling to the domestic market, and exporting wineries must deal with additional difficulties, such as regulation differences, complex logistics, and language differences — to name a few. This study seeks to inform Virginia wineries about the United Kingdom as an export market and discusses some of the major issues that must be faced. Finally, the authors present information that may be useful to Virginia wine producers so they can overcome some of the foreseeable obstacles.

11 The United States Wine Industry

The economic importance of the grape and wine sector has increased in recent decades, and in 2007, grape products in the U.S. had an estimated \$162 billion¹ economic impact on the American economy. This sector also accounted for more than one million jobs in the U.S., with a payroll of almost \$33 billion (MFK Research 2007). Unlike other parts of the world, the U.S. wine industry has witnessed consistent growth on both the supply and demand sides.

As figure 1 shows, with the exception of the mid-1980s and early 1990s, the consumption of wine in the U.S. has been increasing almost without interruption since the 1930s. That temporary decrease in consumption was due in part to growing press coverage of the negative impacts on health

associated to the consumption of certain alcoholic drinks. However, in November 1991, the CBS television program “60 Minutes” aired a segment on the “French paradox,” which found that moderate consumption of red wine lowers the risk of coronary heart disease, making wine consumption more acceptable among health-conscious consumers.

On the supply side, the production of wine in the U.S. has increased in recent years. From 1999 to 2007, the number of bounded wineries in the U.S. increased by 83 percent, from 2,688 to 4,929. Figure 2 reveals a positive trend in the production of wine in the U.S. from 1995 until 2009.

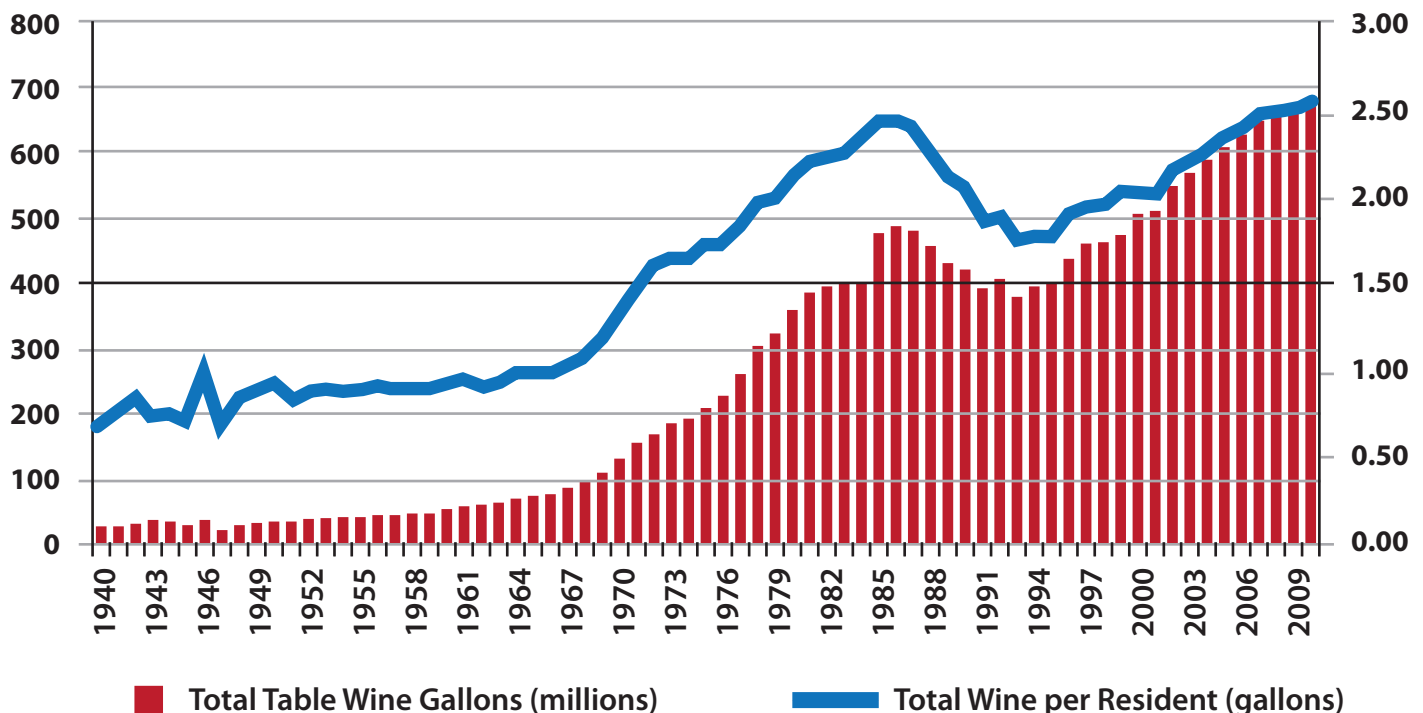
Furthermore, domestic wine sales accounted for almost two-thirds of the 2005 total sales of wine in the U.S. In terms of international trade, 35 percent of grapes and 6 percent of wine produced in the U.S. are being exported (MFK Research 2007). Last year, in part due to a weaker dollar and ample supplies of good quality wine, the United States accounted for 8 percent of global wine exports with a total of 385 million liters (USDA-FAS 2011).

12 The Virginia Wine Industry

Virginia’s wine industry dates back to the early 17th century at the Jamestown colony and continued with the efforts of Thomas Jefferson and other progressive farmers of his era to promote the development of an American wine industry. The

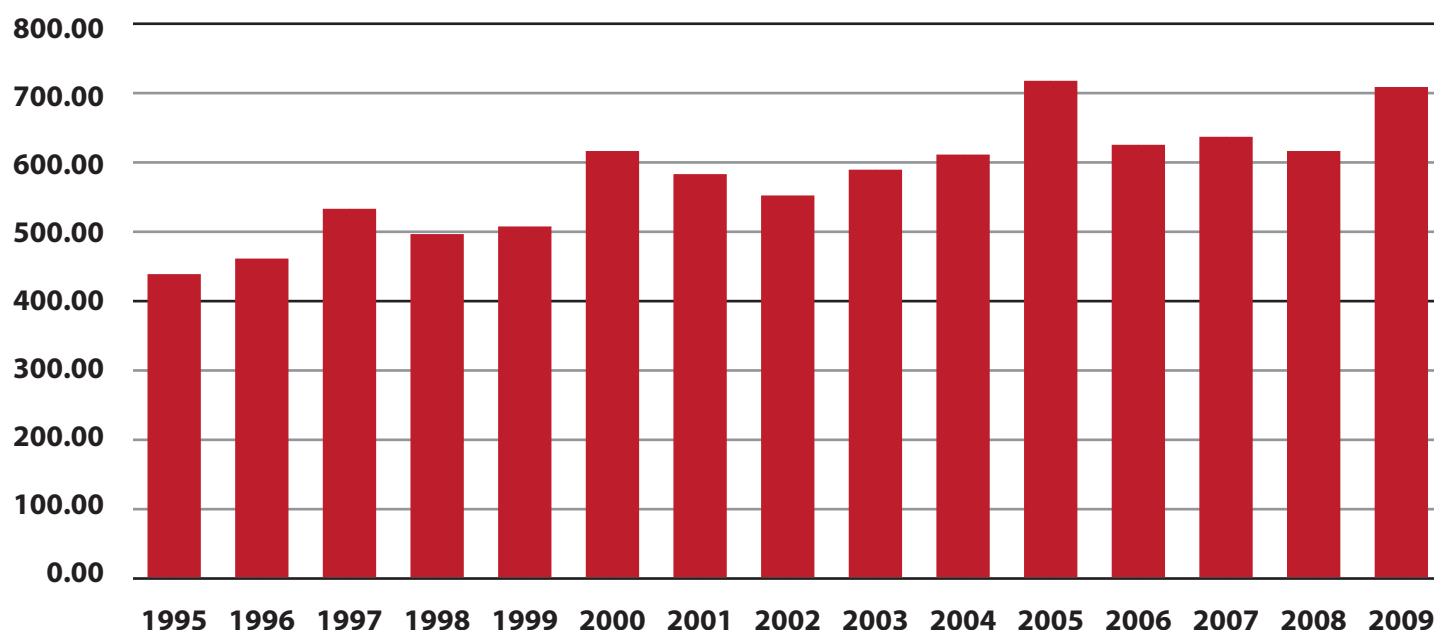
¹ All mentions of dollars (\$) in this publication refer to U.S. dollars.

Figure 1. U.S. total and per resident wine consumption (in gallons), 1940-2010.



Source: The Wine Institute, 2011.

Figure 2. Production of wine in the U.S. (in millions of gallons), 1995-2009.



Source: The Wine Institute, 2011.

number of wineries and vineyards has been growing steadily. Virginia is home to 206 wineries, up from 107 in 2005 and only a handful in 1980. The chardonnay variety accounted for 19 percent of Virginia's total vinifera production harvest in 2007. Chardonnay, cabernet franc, merlot, cabernet sauvignon, and vidal blanc were the top five varieties produced in the commonwealth in 2007 (VDACS 2011).

Based on data from the U.S. Department of the Treasury Alcohol and Tobacco Tax and Trade Bureau, in 2010, Vir-

ginia ranked 13th nationally in terms of production of bulk wine (see table 1) and 15th in the production of bottled wine (Raper 2010). In 2009, around 400,000 cases of Virginia wine were sold for a value of \$70 million. Despite these encouraging numbers, less than \$100,000 resulted from export sales.

These figures may reveal an insular nature of the Virginia wine industry. Nevertheless, recent and growing exports to the U.K. and other foreign markets are sending a positive

Table 1. Top 15 bulk wine producers in the U.S. in 2009 and 2010.

Rank	State	2009 bulk wine (gal)	2010 bulk wine (gal)
1	California	634,384,072	606,448,660
2	New York	26,257,964	25,248,204
3	Washington	23,757,121	19,787,791
4	Oregon	6,417,558	4,907,368
5	Kentucky	1,992,767	2,247,492
6	Florida	1,871,429	2,018,975
7	New Jersey	1,711,915	1,519,742
8	North Carolina	1,231,746	1,201,487
9	Missouri	1,034,272	1,095,131
10	Ohio	1,102,958	1,093,443
11	Texas	675,530	998,154
12	Indiana	813,511	985,649
13	Virginia	1,162,497	976,052
14	Michigan	1,269,514	892,793
15	Pennsylvania	816,054	823,390

Source: U.S. Department of the Treasury Alcohol and Tobacco Tax and Trade Bureau, 2011.

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message to domestic customers and distributors that the quality of the state's wines is being recognized globally.

1.3 The United Kingdom Wine Market

For several centuries, wines from France (Bordeaux), Portugal (port), and Spain (sherries) have been in high demand in the U.K. According to Wine Intelligence (Halstead, Howard, and Rastegar 2011), the U.K. is now a mature and well-established wine market characterized by strong historical growth that is now trailing off. The climate in the U.K. severely limits domestic production, which accounts for only 0.01 percent of U.K. wine consumption (USDA-FAS 2006). Furthermore, the U.K. ranks 13th worldwide in terms of wine consumption per adult, and it is the world's fifth-largest wine market. As a result of negligible domestic wine production and increasing wine consumption, the U.K. became the largest importer of wine by value in the world. After a slight downturn in 2008 and 2009 due to the global economic recession, global wine imports reached 4.4 billion liters in 2010, and it is expected to continue to expand to another record in 2011 (USDA-FAS 2011).

According to Raper (2010), the U.K. represents a promising market for Virginia wines due to a number of factors:

- U.K. wine production is negligible, and it is the world's largest importer (about \$8 billion annually).
- There is a historical connection between the U.K. and Virginia, as both shared a common past during the colonial era.
- The British are familiar with the varieties that are among Virginia's best wines, including viognier, cabernet franc, and petit verdot.
- Virginia's viognier can be competitive in terms of value when compared to the French viognier-based wines of comparable quality.
- Virginia wines tend to be more European in style than many California wines, which may improve their acceptance by the British market.
- Virginia wineries can benefit from the fact that there are currently no import quotas covering wine in the U.K.

This publication provides information to the Virginia wine industry about market opportunities in the U.K. There are intrinsic characteristics of this market that wine exporters need to be aware of. The next section gives an overview of the wine market in the U.K. and highlights important patterns and trends. The third section describes the distribution channels available to those wineries entering the U.K. market. Sections 4 and 5 discuss pricing and labeling/bottling issues, respectively. Some consumer trends, such as demand for

eco-friendly and fair-trade wines are explained in section 6. Section 7 concludes and summarizes some of the main findings of this study.

2. The Wine Market in the United Kingdom

2.1 The Overall Wine Market in the U.K.

Introducing Virginia wines in any international market is not an easy endeavor, especially if we consider that 7 billion gallons of wine are produced worldwide annually, and in 2009, there were more than 6,000 wineries in the U.S. (Fisher 2010). In the case of the U.K., this is a very competitive and well-established wine market by volume, consuming roughly 1.2 billion liters (264,172,100 gallons, or more than 13 million cases) per annum (Austrade 2010).

According to a report from the USDA-FAS (2011), the U.K. and Italy were identified as the leading markets for U.S. wine exports in 2007 (Italy 29 percent and the U.K. 26.4 percent). This same report states that the outlook for U.S. wine exports to the U.K. market is extremely bright due to declining sales of French wine in the U.K. and an increase in U.K. consumers' appetites for wines produced outside the European Union.

Since 2003, total sales of New World wines have surpassed those of traditional Old World suppliers such as France, Italy, Germany, and Spain. The New World suppliers include Australia, the United States, South Africa, and Chile. This competition has been driving down wine prices — particularly among wines at the lower price spectrum — benefitting the British consumer (USDA-FAS 2006). Virginia wineries should look at these market dynamics as encouraging opportunities to export their products to the U.K.

2.2 Wine Consumption Trends in the U.K.

The U.K. has a population of 62 million people, and the average income is \$39,604 (International Monetary Fund 2011). Wine consumption in the U.K. has been increasing at the expense of beer sales (particularly in the hotel, restaurant, and bar sectors). This may arguably be a result of the British people embracing more "continental" social habits and drinking wine with meals at home more often. Wine consumption is also positively impacted by rising personal disposable income in this country (USDA-FAS 2006).

According to the Wine and Spirit Trade Association (2011), 68 percent of the 48.8 million adults living in the U.K. consume wine (more than 33 million people). From this consumer group, 58 percent are classified as regular wine consumers (more than 19 million people). Another important statistic is annual wine consumption per capita, which is approximately 28 liters (7.4 gallons) in the U.K. (Allen 2009).

2.3 Demographics

Wine consumption in the U.K. varies widely by age and gender. Women in the U.K. are the key consumers, with 56 percent of them considering wine their favorite drink. On the other hand, beer is still the drink of choice among the majority of men, and only 24 percent of them favor wine over other alcoholic drinks (ICEX 2011). A market study done by Off Licence News (2010) concluded that white wines have been the most consumed wines by both women and men (77 percent and 74 percent, respectively). Men consume the majority of red wine, with 75 percent of men drinking red wine in comparison to only 46 percent of women.

Like most other Western European countries, the U.K. population is aging. This demographic trend, based on age-related patterns, will likely have a positive impact on demand for alcoholic beverages. According to a report published by the Wine and Spirit Trade Association (2011), 62 percent of adults in the U.K. consumed alcohol during the first four months of 2010. Consumers who are 55 years of age and older drink wine most frequently, followed by 34- to 54-year-old consumers. Men age 55 and older are the most important male wine consumers in the U.K., while women ages 35 to 44 are the most frequent female wine consumers. Finally, wine is a much less popular drink among the younger population (males and females ages 18 to 24; ICEX 2011).

2.4 Wine Expenditures

In 2009, the U.K. wine market was estimated to be worth \$17.53 billion, and annual wine expenditures per capita were more than \$286 (Datamonitor Group 2010). Still wine² is

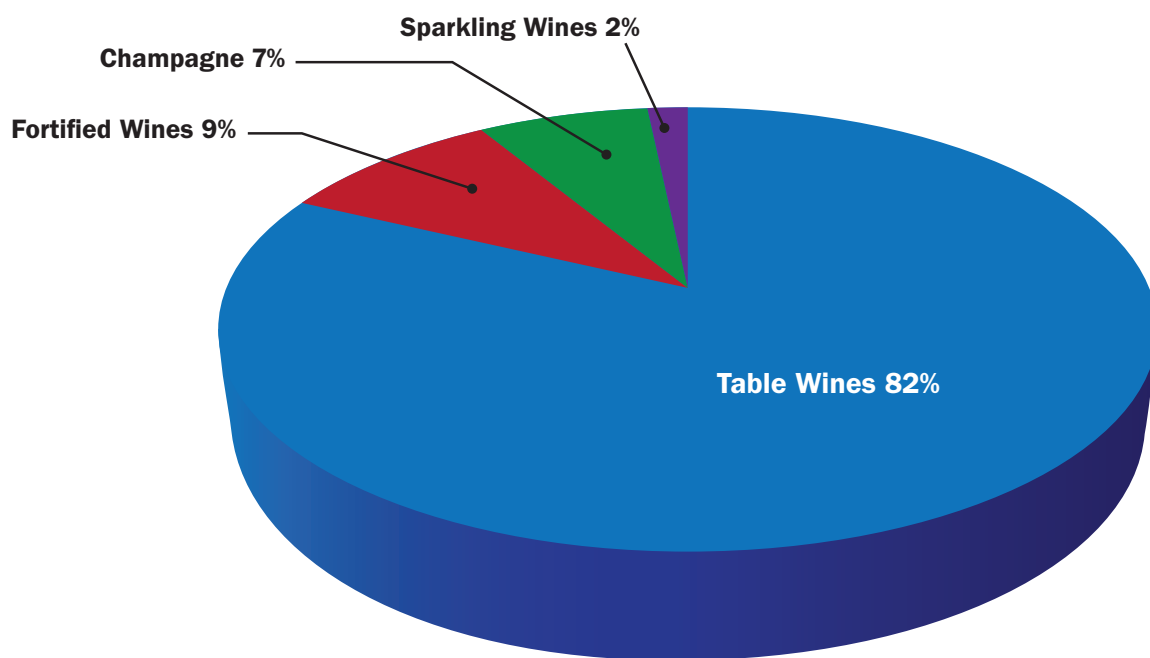
the most important category of alcoholic beverages with an increasing market share. More importantly for the sector, wine consumers are the largest spenders on alcoholic beverages, with an average expenditure of 8.60 pounds³ (\$13.86) on alcohol every week (ICEX 2011). The average expenditure on alcoholic drinks consumed at home is 7.60 pounds (\$12.26), with 8.78 pounds (\$14.16) for men and 6.42 pounds (\$10.35) for women. A steady increase in wine consumption is associated with increases in disposable incomes, an aging population, and to a tendency to eat out more often and to eat better at home. Interestingly, the increase in wine sales has been driven by this largest consumer group drinking more, as opposed to younger consumers being attracted to wine (USDA-FAS 2006).

2.5 Wine Demand by Type

Grape variety is the most important factor for British consumers when they purchase wine, and market research has shown that consumers choose wines more by grape variety than by country or region of origin (Spawton and Lockshin 2004). Another important issue is that preferences for particular varieties are shaped by market trends. For instance, last year the most popular wines were merlot for red wines, chardonnay for white wines, and white zinfandel for rosé wines (ICEX 2011). As shown in figure 3, in 2009, table wines represented the largest segment of the market with an 82 percent share by value, followed by fortified wines (9.3 percent), while Champagne/sparkling wines accounted for 8.7 percent (USDA-FAS 2006).

Figure 4 shows that consumers in the U.K. drink more white wines and their sales account for 46 percent of total

Figure 3. U.K. wine market segmentation (% of share by value), 2009. Source: Datamonitor Group, 2010.



Source: Datamonitor 2010

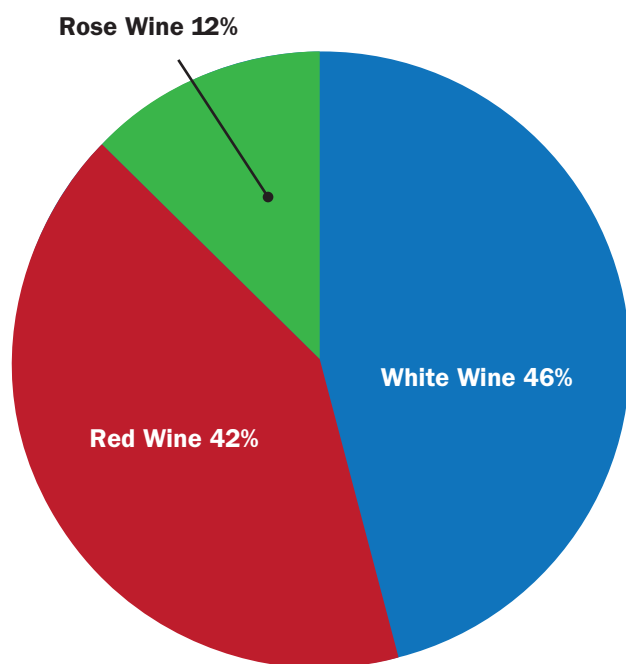
² If carbon dioxide is allowed to escape, the wine is referred to as “still,” whereas sparkling wine is wine that contains carbon dioxide.

³ All mentions of pounds in this publication refer to British sterling.

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table wine sales. Furthermore, the current trend is for lighter, unoaked styles such as pinot grigio, sauvignon blanc, riesling, and viognier. Red wines account for 42 percent of total sales, with the traditional varieties of cabernet sauvignon and merlot continuing to do well despite a growing demand for shiraz/syrah and malbec. Sales of rosé wine (particularly white zinfandel) increased by 20 percent in the year 2004-2005 and constitute 12 percent of the total market (Datamonitor Group 2010). Despite a smaller market share, the demand for this type of wine was the only one that did not decrease during the recent economic downturn. It is also worth mentioning that the demand for rosé wine in the U.K. has been increasing — especially among female consumers (ICEX 2011).

Figure 4. Market share in the U.K. by wine category.
Source: ICEX, 2011.



Source: ICEX 2010

The most popular style of wine consumed in the U.K. is relatively young and ready to drink; the top 20 wines by styles and origin are shown in table 2. U.S. reds and whites account for more than 11 percent of British choices, while U.S. rosés are dominant in this segment with 2.4 percent of market share. Finally, consumers in the U.K. are increasingly aware of alcohol content, and certain varieties produced by Virginia wineries are a good fit for this market in comparison to many other New World wines with a higher alcohol content. This is particularly true for those that perform well in Virginia (e.g., viognier, cabernet franc, petit verdot, and Bordeaux-style blends) and increasingly represent Virginia's wine identity (MFK Research 2007).

Table 2. Ranking of wine types by market share in the U.K., 2006.

Rank	Wine type	% share
1	Australian red	11.3
2	French red	9.9
3	Australian white	8.7
4	French white	7.5
5	German white	7.1
6	Italian white	7.0
7	U.S. red	5.6
8	U.S. white	5.5
9	South African white	5.3
10	Spanish red	4.7
11	South African red	4.3
12	Italian red	3.9
13	Chilean red	3.7
14	Chilean white	2.7
15	U.S. rosé	2.4
16	Spanish white	1.9
17	New Zealand white	1.0
18	Argentinean red	0.8
19	French rosé	0.8
20	Hungarian white	0.7

Source: Drink Pocket Book 2006, Institute of Alcohol Studies, 2005.

2.6 Wine Demand by Country

Wines from the New World have had a strong presence in the British market, and they accounted for more than 60 percent of U.K. wine sales by volume in 2010. More recently, however, U.K. consumers have broadened their New World selections to include wines from Chile, Argentina, South Africa, and the U.S.

Interestingly, Australian wines have toppled French wines and rank first in terms of imported volume and value. As table 3 shows, American wines rank second in terms of consumption and accounted for almost 15 percent of total wine sales by volume in the U.K. Nevertheless, it must be pointed out that U.S. wines have lost some of their market share since 2008.

Some additional market dynamics for U.S. wines in the U.K. are worth mentioning.

1. U.S. wine sales in the U.K. are largely driven by the Blossom Hill and E. & J. Gallo brands. About one-third of U.S. sales in the U.K. may be Blossom Hill alone (Datamonitor Group 2010).
2. The Wine Institute, which represents California, has been supporting a high-profile campaign to demonstrate that the United States can supply adequate wine for the U.K. market's needs in the interim price range.

Table 3. Wine sales in the U.K. by country of origin, 2010.

Country	Volume 2010* 887,022	% market share 100	Volume 2009* 893,439	% market share 100	Volume 2008* 865,476	% market share 100
Australia	186,057	21	183,888	20.58	267,372	30.89
U.S.	129,321	14.6	132,732	14.86	142,065	16.41
Italy	128,322	14.5	119,052	13.33	109,377	12.64
France	107,406	12.1	111,159	12.44	127,728	14.76
South Africa	99,792	11.3	110,142	12.33	89,586	10.35
Chile	78,111	8.8	79,605	8.91	63,423	7.33
Spain	65,925	7.4	63,063	7.06	58,437	6.75
New Zealand	33,615	3.8	27,684	3.10	18,918	2.19
Germany	26,685	3.0	30,159	3.38	36,045	4.16
Argentina	10,017	1.1	12,060	1.35	11,403	1.32
Portugal	7,497	0.8	8,217	0.92	8,118	0.94

* Volume in thousands of liters.

Source: Nielsen Scantrac Service, October 2010.

3. In recent years, trade sources have described a polarity in the supply of wine by the U.S. to the U.K. market: a plentiful supply of lower-end wine and an ample supply of boutique-priced wine (USDA-FAS 2006).

3. Distribution Channels

3.1 The U.K. Wine Market

Supermarkets and hypermarkets⁴ are the dominant forces in the U.K. retail market, accounting for 46 percent of total wine sales. The so-called “specialist retailers” account for 25 percent, and the remaining market share comprises small, independent specialists and grocers (Datamonitor Group 2010). New wineries entering this market have to consider what will be an optimal positioning for their wines. In terms of the available selling outlets, they will be faced with the following choices:

1. Retail chains that typically involve large volumes but slim margins.
2. Independent specialists offering better margins but with modest sales.
3. Food service, which is hard to access but offers higher margins and helps to build a brand’s prestige.

3.2 London International Wine Fair

The London International Wine Trade Fair (LIWF) takes place in May, and it is the largest annual show for wholesal-

ers in Britain. Although taking part in a trade event does not guarantee success, it increases the visibility of a new winery to a number of importers, wine merchants, and wine critics in the U.K. The cost of booking a stand in this event ranges from 302 pounds (\$476) to 362 pounds (\$571) per square meter.

In 2009, Christopher Parker from New Horizon Wines initiated and implemented the first showing of Virginia wines at LIWF, presenting wines from nine Virginia wineries. By 2011, 62 American wine producers were present at this event, seven of which were from Virginia (Barboursville Vineyards, Breaux Vineyards, King Family Vineyards, Narmada Winery, Veritas Winery, White Hall Vineyards, and Williamsburg Winery). In 2012, seven Virginia wineries participated in the LIWF. Despite the high cost of this fair, Virginia wineries should regard their participation as a key part of their promotion and marketing strategies. Interestingly, import duties are applied to samples used at trade fair tastings because of their promotional nature.

3.3 Importers/Agents

The sale of wine in the U.K. can be done through two primary channels: direct contact with a distributor or through an agent or importer. If a foreign winery does not establish sales contracts with major supermarket chains or specialized stores, the best strategy to enter this market is via an agent or importer. Identifying a good agent/distributor match that fits the company’s needs is one of the greatest challenges for any exporter (Spawton and Lockshin 2004). New Horizon, a firm

⁴. A hypermarket is usually defined as a large retail store that combines a department store and a supermarket.

creating and developing international markets for Virginia wines, has introduced 14 Virginia wineries in the U.K. market.

Another useful source of contact details for importer/distributors is the annual Harpers Wine & Spirit Directory. This is a wine trade resource/publication with an online presence that offers — for a fee — an annual database of agents, importers, distributors, independent wine merchants, consultants, and media representatives (Austrade 2010).

Once a winery finds a partner, it must remain proactive because most importers have large portfolios and are only able to devote a small portion of their time to particular labels. Thus, newcomers should be prepared to address the following issues:

1. The winery's willingness to support promotional programs, such as a 10 percent free sample stock for tastings.
2. An online presence with a professional website that includes an international/export section.
3. Wine technical information available to interested parties.

Importers in the U.K. must have a license if they import more than 3,000 liters of either red or white wine from countries outside the EU. An alternative method would be the so-called "indirect export" method. Under this method, merchants and brokers buy wine at the winery and undertake the total export process on behalf of the producer. This method may offer some advantages to smaller Virginia wineries, and it is recommended for wineries that lack export experience and the skilled staff required to deal with the complex and very competitive export markets.

Furthermore, wineries can sell their products under the local market trading terms, and the transactions would take place in U.S. dollars, eliminating currency exchange rate risks (Spawton and Lockshin 2004). Finally, it is highly recommended that Virginia wine producers travel to the U.K. in order to better understand its market dynamics, establish contacts, undertake their own research, and make their own assessments.

3.4 On-Trade Versus Off-Trade Sales

On-trade sales include wine sales taking place in pubs, bars, and restaurants. Given the typical fragmentation in the on-trade sector, the most common approach is through an agent or importer. This is particularly true for relatively unknown wineries selling small quantities of quality wines. Most Virginia wineries would fit in this category and should consider contacting an agent or an importer in order to enter the U.K. market.

The majority of wine in the U.K. is sold through the off-trade channels, which makes wine more accessible to a larger number of consumers with lower retail prices (Austrade 2010). In the off-trade sector, wineries may work directly with a distributor without having to go through an agent. Supermarkets and specialized chains have dominated distribution at the off-trade sector — supermarkets account for 81.9 percent of off-trade wine sales and their importance is increasing at the expense of smaller independent businesses.

When wineries negotiate with large retail chains, there are two central issues: volume and consistency. With a production of 20,000 or more cases, a winery should be able to meet the demands of a large retail chain. However, wineries producing fewer than 7,500 cases are better suited to selling their products to independent stores (ICEX 2011). Most Virginia wineries would fit in the latter category and should place their wines at more specialized wine stores.

As shown in table 4, Tesco, Sainsbury's, and ASDA accounted for more than 50 percent of total sales of alcoholic drinks in the U.K. in 2009 (ICEX 2011). Normally, consumers at these stores will find specialized wine sections organized by country of origin. Virginia wines would have to carve their own shelf space within the U.S. section and compete against California wines. In order to gather valuable market information, wineries can research the Web pages of these supermarkets and use them for brand and price comparison purposes.

Table 4. Alcoholic Drinks Sales by Retail Stores in the UK (2009).

Store	% of sales
Tesco	31.0
Sainsbury's	16.6
Asda	15.8
Morrisons	11.7
Co-op	10.3
Discounters	6.2
Waitrose	3.6
M&S	2.1

Source: ICEX, 2011.

Majestic Wine is the U.K.'s largest wine warehouse chain with 144 stores (Austrade 2010). Oddbins, a chain of liquor stores with more than 170 outlets in the country, recently filed for bankruptcy. Although most British consumers purchase wine at supermarkets, some choose these specialized chain stores to buy wine for special occasions. The market share of these stores has been decreasing in recent years due to increased wine sales by large supermarkets.

It is important to note that the demise of some of the specialized national chains is opening new market opportunities to regional wine merchants. Virginia wineries may also attempt to sell their wines to smaller independent stores such as Berry Bros & Rudd; Roberson; Lea and Sandeman; Jeroboams; etc. These stores attract more knowledgeable consumers who are willing to pay higher prices. Currently, Whole Foods Market in Kensington, London, carries the largest selection of Virginia wine in the U.K., with 15 wines included in a “Virginia wine” section (Virginia Wine Lover 2011).

4. Pricing

Pricing is an essential part of exporting strategy, especially when we consider how the higher cost of exporting may affect the competitiveness of a product. Added costs include:

- Additional packaging costs.
- Compliance with local standards and certifications.
- Label modifications.
- Shipping and containerization.
- Insurance.
- Duties and/or excise.

The prices of Virginia wines sold in the U.K. must reflect all these costs as well as the different profit margins of the producers, agents/importers, and retailers. This means that wineries may have to accept lower margins or move their products into a slightly higher price point if they want to maintain their margins.

British consumers’ purchasing decisions at the supermarket level are largely motivated by prices, and one market study found that an important group routinely buys wine on special offer (Mintel 2011). This is, in part, the result of retailers having trained their customers with “value-based” deals over the past decade (Austrade 2010). On the retail side, supermarkets make stringent promotional demands on large wine brands, and during holiday seasons, they often use price promotions as their primary mean of promoting wine (Spawton and Lockshin 2004). In summary, this market environment has led to a systematic decrease in the average price of a 75-centiliter bottle of wine, and wine producers have ultimately had to decrease either their prices or their production costs to remain competitive (USDA-FAS 2006).

4.1 Transportation

Transportation of wine inside the European Union (EU) territory is commonly done under Ex Works conditions. In other words, buyers will pay for all costs and accept all the

risks once the wine leaves the winery. Nevertheless, Virginia wineries starting to export their products to the U.K. may want to hire the services of companies that specialize in wine transportation. In addition to shipping and handling, these companies’ facilitating services include storage and tax management.

4.2 Margins

The most important margins in the wine distribution channel are those of the importer and retailer. Twenty-five percent margins for agents or importers are not uncommon. The average margins for other commercial establishments are 31 percent for supermarkets, 34 percent for independent stores, 37 percent for specialized chain stores, and 24 percent for wholesalers (Off Licence News 2010).

4.3 Taxes

The retail price of a bottle of wine is typically more expensive in the U.K. than in other EU member countries due to the higher excise duty and taxes. In the U.K., a 20 percent sales taxes is applied to wine after all other special taxes are included. Different special taxes on wine are dependent on alcohol content and get revised during the first trimester of every year. Wines with an alcohol content of 5.5 to 15 percent entering the U.K. in 2011 paid 241.23 pounds (\$388.76) per hectoliter (100-liters) or 1.81 pounds (\$2.92) per 75 cl bottle. Note that the 2012 budget includes a 5 percent increase in the excise tax. Most Virginia wines would fit in this category in terms of their alcohol content.

Since 2002, these taxes have increased every year at an average of 0.034 pounds (\$0.05) per bottle (or \$0.60 per case). In addition to tariff (import) duty, wine bottles are also subject to excise duty and value-added tax, which is applied *ad valorem* (on the value of) on the landed price (cost, insurance, and freight) on arrival in the EU territory. Since Nov. 1, 2011, the rate of VAT has been 20 percent. Virginia wineries can obtain information on U.K. import/export excise duties at www.hmrc.gov.uk and www.wsta.co.uk.

4.4 Wine Sales by Price

Table 5 reveals that the most popular wines in the U.K. market have been those ranging from 3.01 pounds (\$4.85) to 4 pounds (\$6.45) per bottle. For the last four years, wines sold for less than 5 pounds (\$8.06) have accounted for approximately 80 percent of total wine sales (ICEX 2011). The average price of U.S. wines sold in the U.K. is 4.40 pounds (\$7.09), which is less than the average prices of Australian, French, New Zealand, and Argentinean wines.

Due to their size and production costs, some Virginia wineries may find it difficult to market their wines at major retail stores under those lower price ranges. Nevertheless, this it is important to note that these numbers may be skewed

downward because the largest share of wine is sold at super-markets at lower prices. Independent merchants and specialty retail stores in the U.K. typically sell wine at higher average prices.

Table 5. Wine Market Share by Price Bracket (2007-2010).

Price (pounds)	2007 (%)	2008 (%)	2009 (%)	2010 (%)
>3.00	20.1	12.9	8.9	7.8
3.01-4.00	42.3	42.9	42.7	38.1
4.01-5.00	21.2	24.7	27.9	32.3
5.05-6.00	9.1	10.7	11.1	11.7
6.01-7.00	3.3	4.1	4.7	5.5
7.01-8.00	1.6	2.0	2.0	2.0
8.01-9.00	0.7	1.0	1.1	1.1
9.01-10.00	1.0	1.1	1.0	0.8

Source: ICEX, 2011.

Wine sales at pubs, bars, and restaurants (on-trade) present a different picture. Based on a study by the Wine and Spirit Trade Association study (2011), 18 percent of British consumers spend an average of 12.51 pounds (\$20.11) to 15 pounds (\$24.11) when they buy a bottle of wine at a pub, bar, or restaurant. Furthermore, around 50 percent of consumers spend between 7.51 pounds (\$12.11) and 20 pounds (\$32.25) on wine that is bottle-sold in the on-trade sector. In summary, the on-trade sector, with margins up to 300 percent, may represent a good potential market for Virginia premium wines.

5. Labeling and Bottling

Besides the legal requirements for labels specific to each country, wineries should not overlook the importance of front and back labels as important tools in the winery's brand strategy. The front label presents the wine to consumers and is often its only practical advertising tool. Labels act as print ads when bottles are exposed on shelves, so both bottle and label should fit with the caption in a clever way. For the average consumer, the display of the grape variety, geographic origin, and year will be sufficient. However, more demanding consumers will likely look for further information; for example, back labels often include the history of the winery.

Because the U.K. is an EU member, regulations regarding labeling and bottling are based on EU regulation 1493/99 regarding the common organization of the market in wine, modified by regulations 479/2008 and 607/2009. The following information must be visible in the labels without having to turn the bottle:

- The country of origin.
- The region or denomination of origin, if applicable.

- Name and address of the bottler.
- Wine nominal volume (e.g., 75-centiliters or 1.5-liters).
- Alcohol content.

The following information is not required to be in the visual field:

- Lot number.
- The warning "contains sulphites."

Other pieces of information are optional and include:

- Taste profile.
- Location/brand history.
- Responsible drinking message.

Virginia wineries may test label concepts and designs with distributors, retailers, and restaurants in the U.K. Virginia wineries can find more information on EU wine labeling regulations at: http://europa.eu/legislation_summaries/consumers/product_labelling_and_packaging/l21303_en.htm and www.food.gov.uk/enforcement/sectorrules/winestandards/.

6. Eco-Friendly Produced and Fair-Trade Wines

Most of the wine in the U.K. is sold in 75-centiliter bottles, seconded by 3-liter boxes and 1.5-liter bottles. However, new and lighter bottles have been introduced to this market as part of an effort to market wines in a more environmentally friendly manner. These new bottles weigh 300 grams and represent a 30 percent savings on glass. According to Off Licence News (2010), the new light bottles are the most popular eco-friendly alternative to standard bottles and 31 percent of the industry is already using them.

Sales of organic wine in England reached 9.3 million pounds (almost \$15 million), and there are more than 350 different organic wines available to the U.K. consumer. Their demand, in comparison to organic food products, is still relatively small in this country (Cottingham and Perrett 2010). Furthermore, during the recent economic downturn, the demand for organic wines decreased substantially, suggesting that consumers may have moved away from this market segment as a cost-savings decision.

On the other hand, some wines labeled as fair trade experienced an increase of more than 9 percent from 2008. A study by Wine Intelligence (2008) revealed that 70 percent of British consumers are familiar with organic wine and 65 percent are aware of fair-trade wine. The same study confirmed an increase in consumers' awareness of eco-friendly wines and

revealed that British consumers are the most conscious in Europe with respect to organic and environmentally friendly products. Overall, U.K. consumers tend to be educated and concerned about environmental and sustainability issues (New Zealand Trade & Enterprise 2010), which represents an opportunity for Virginia winemakers that emphasize sustainable and environmentally friendly production practices (USDA-FAS 2006).

7. Conclusion and Recommendations

Entering international markets can be more difficult and competitive than just selling in your home market, and it will require a strong commitment of resources and time to be successful. Consequently, those Virginia wineries that have not achieved a solid position in the domestic market should be cautious about exporting their products. Wineries new to the export business should focus on a single market until they develop the necessary managerial skills to expand to other countries. The United Kingdom, a well-developed, wine-consuming culture, represents a very attractive export market for some Virginia wineries.

As part of its brand-marketing strategies, a winery must have specific distribution goals and be able to identify the types of stores that match its brand. Virginia wineries must have a clear understanding of the retail market structure in the U.K. and be aware of the need for a concerted effort to establish a business relationship with a U.K. importer/distributor or agent. Wineries should also be prepared to invest a considerable amount of time and resources engaging with U.K. buyers and be willing to make a significant investment in product differentiation and promotion.

It is true that larger wine companies have more options for developing international markets, but this should not deter Virginia wineries that produce quality wines from exploring other markets. Regardless of the size of the winery, someone will have to be responsible for the export activities. In the case of smaller wineries, this will be an additional duty for the marketing manager or general business manager. Larger wineries may consider a person who will deal exclusively with export markets and report directly to the general manager.

Wineries must also be aware of their external capabilities and realistically assess whether or not they have the quantities and styles of wine that the export market will demand. To address these issues, wineries should design a long-term strategy rather than regarding exports as single, individual shipments.

Another important issue has to do with cash and credit resources that wineries have. In direct export, payment terms

will be longer than for domestic transactions: 120 days or more (Spawton and Lockshin 2004). Thus, wineries must be mindful of how they manage cash flow when they begin to export their products.

Virginia wineries can also work as a group in the promotion of their wines in international markets. Combined efforts could help build awareness and understanding of the Virginia wine region. Some joint strategies could include creation of production and export cooperatives, creation of regional institutions to oversee the certification of Virginia wine brands, and the development of eco-friendly standards and certifications. Individual wineries will simply not have the resources to do this on their own.

The final recommendation to Virginia wineries is to discuss the issues described in this paper with potential distributors and importers that operate in the U.K. market.

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