Management Summary / 31 January 2023

Current ProWein Business Report 2022 out now: The wine industry responds positively to the economic crisis

Commissioned by ProWein, Geisenheim University polled experts from throughout the world across the entire value chain of the wine industry in late 2022, for the sixth time now. Participants include wine producers from the most important wine-growing countries in the Old and New World, exporters, importers, specialist wine merchants as well as representatives from the food service/hospitality and hotel industries. The Report follows on from ProWein's unique, regular "Marktbarometer" (Market Barometer) for the international wine industry produced since 2017 and assesses the significance of the challenges facing the industry during the current economic crisis.

"This year again almost 2,500 international experts from 47 countries have shared their insider knowledge," says Prof. Simone Loose, Head of the Institute for Wine and Beverage Business at Geisenheim University, underlining the special relevance of this global industry barometer. "The industry faces major challenges caused by rising costs and disrupted supply chains. What's good here is that industry leaders are proactively responding to the economic crisis by tapping into new markets with their products and innovatively reacting to traders' and consumers' needs." This includes alternative wine packaging and low or no-alcohol wines.

TOPIC 1

The mood in the industry

Rising costs and disrupted supply chains prove the greatest challenges for the industry

Economic slowdown threatens to curb wine sales

The economic recovery hoped for has not materialised

The industry looks to the future with caution

Current challenges for the wine industry

Like in the previous year, rising costs and disruptions to supply chains rank top of the list here. However, the degree to which the industry is affected has clearly increased. 85% of those polled regard the rising costs of energy, glass and paper as a great or even very great threat to their companies.

Global supply chain issues are affecting 66% of companies. In particular, the high-export wine producers from the New World (82%), France and Spain (89%) as well as from Portugal (81%) were affected by delayed supplies and increasing transportation costs. Among wine traders it was especially the importer nations Canada (95%), USA (93%), Great Britain (92%), Ireland (91%), Brazil (89%) and Finland (86%) that experienced supply issues.

Economic downturn

For 2023, international economic experts at the OECD and World Bank anticipate a further downturn in the global economy, which might cause a reluctance amongst consumers to buy wine. The impact of an economic slowdown is viewed as the third largest challenge for the wine industry by experts. Compared to the previous year, the proportion of respondents sharing this view is up from 35% to 55%. Specifically, wine producers from Spain (78%) and Portugal (76%), whose exports have recovered very well after Covid, fear a setback from the global recession. Wine merchants are most concerned about wine consumers' disposable income in Portugal (78%), in Great Britain (77%) and in Poland (75%).

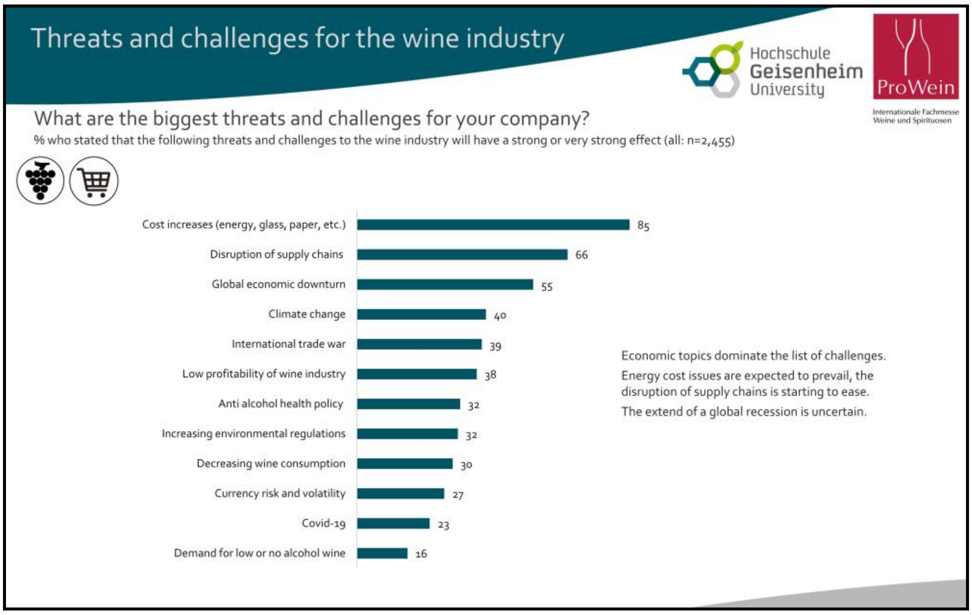

Chart 1 Threats and challenges for the wine industry

Trade wars and currency crises

The consequences of further international trade wars are perceived as a clear threat by the highly export-oriented countries Portugal (59%) and Spain (57%). For wine producers from the New World exports last year became more expensive due to the strengthening dollar. Currency risks and currency fluctuations are among the most important challenges for producers from Chile (80%), Argentina (63%) and South Africa (60%). For European wine producers, whose exports to countries outside the Eurozone have become cheaper, currency risks are currently not of major importance.

Covid-19 impact almost subsided, climate change of secondary importance

From the industry’s perspective, the impact of Covid-19 has subsided. Covid-19 is still relevant only for the hotel (44%) and food service/hospitality industry (42%). Climate change has been pushed even further into the background by the economic crisis. Compared to the previous year, its importance has dropped from 45% to 40%, with regional variations. Especially for wine producers from Australia (60%), France (53%) and Germany (52%), the already clearly noticeable effects of climate change represent a major challenge.

Hope for economic recovery fails to materialise

The industry entered 2022 with positive expectations. Producers and traders hoped for a recovery from the negative impact of Covid-19. These hopes were only partially fulfilled. Wine producers from Spain, in particular, report a significant improvement in the economic results for 2022 due to a marked increase in export value. The economic status of French winegrowers has hardly changed, while for Italian and German producers the current situation has even slightly worsened in 2022. On the trade side, too, the optimistic expectations have only been fulfilled to a minor extent. Only wholesalers report a small improvement, while for specialist wine merchants as well as food service/hospitality and hotels the situation in 2022 remained largely unchanged.

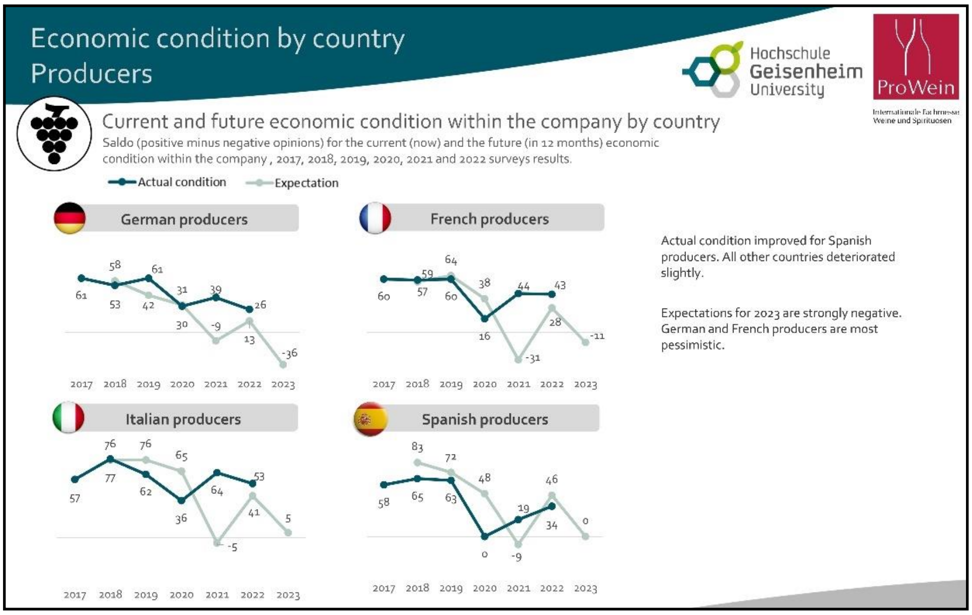

Figure 2 Economic situation of producers by country

Cautious outlook for the future

The outlook for 2023 is clearly more cautious to negative for all industry players. Due to the difficult economic conditions, wine producers, especially wineries and cooperatives, anticipate a significant deterioration. Companies fear that price rises and a drop in consumers' real income will lead to losses. For wineries and cooperatives, expectations are even gloomier than those seen in the industry when Covid-19 hit. Producers from Spain and Italy are again somewhat more optimistic about the new year, unlike winemakers from France and Germany. On the trade side, economic expectations for 2023 have also dropped significantly overall. The food service/hospitality and hotel sectors feel significantly more affected by consumer reticence than specialist wine merchants and wholesalers.

TOPIC 2

Impact of the economic crisis on the industry

Majority of producers raise prices due to increased energy costs and invest in renewable energies

Almost all producers were affected by transport and delivery issues

Impacts for producers greater than for trade

Easing not expected until 2024 or beyond

Most producers hard hit by high energy costs

The global economic upturn after Covid-19 already led to a greater demand for energy and rising energy prices in 2021. With the war in Ukraine and sudden collapse in energy supplies in 2022, prices in many parts of Europe have therefore often more than doubled compared to 2020. Due to their higher energy consumption, producers are significantly more affected by this than wine traders. For instance, 62% of wine producers say they are strongly or very strongly affected by rising energy costs. This is especially true for wine producers from Spain (79%), Austria (75%), France (73%) and Portugal (71%). By contrast, producers from the New World are hardly affected. Since trade consumes less energy in relative terms, the proportion of those strongly or very strongly affected here is significantly lower at 43%. However, wine traders from Poland and Italy (63%), Spain and Greece (60%) are clearly affected more than average.

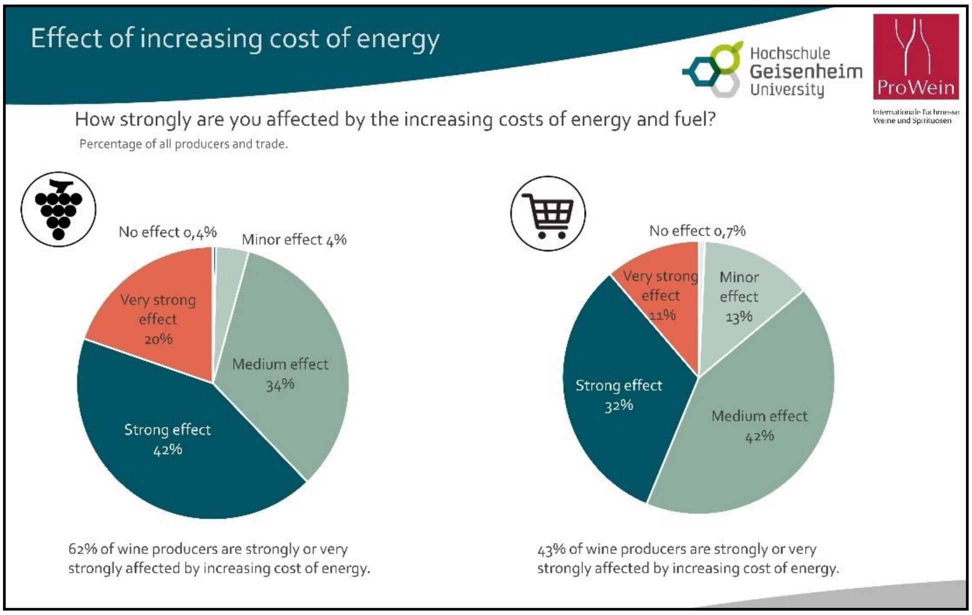

Figure 3 Effect of increasing cost of energy on producers and trade

The majority of companies can still compensate for the higher energy costs and expect reduced but still positive profits. One in seven companies (14%) fear the higher costs will push them into the red, but they can compensate for the losses with existing reserves. 7% of companies feel the survival of their business is in danger due to the very sharp rise in energy costs.

Companies react to increased energy costs

In response to higher energy prices, 68% of companies intend to raise the prices of their products in order to pass on at least part of these higher costs. In doing so, companies are aware that higher prices can lead to reluctant consumers. The second most common measure adopted by 59% of companies is optimising their processes to save energy. Higher energy prices make renewable energies more attractive in price terms. 41% of wine producers are therefore now investing in sustainable energy alternatives, for instance by installing solar panels on their company buildings.

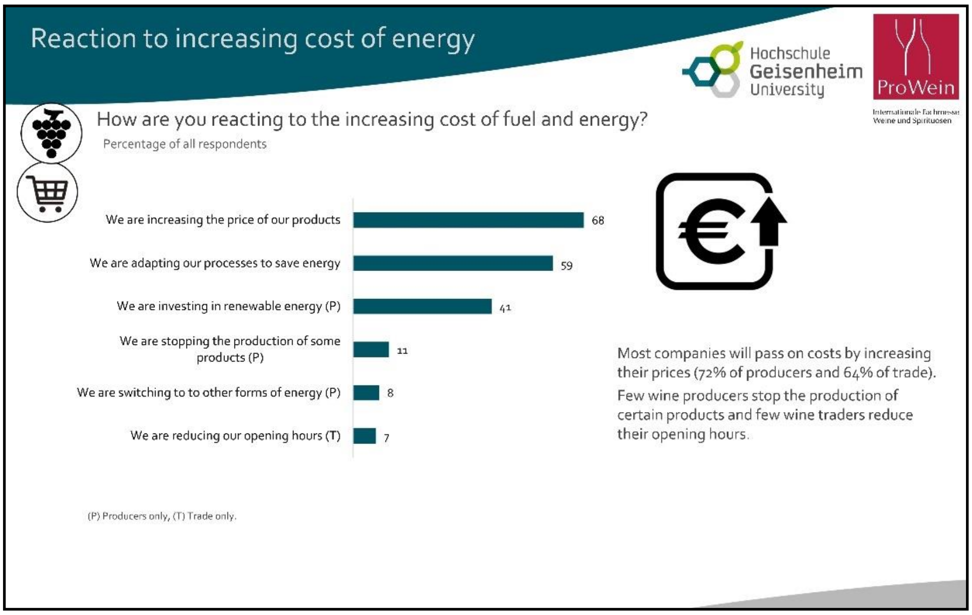

Figure 4 Companies' reaction to increasing cost of energy

So far, only a few companies have reduced their business activities due to high operating costs. 11% of wine producers indicated they would forego the production of certain products. These, for instance, include niche items produced in low quantities that cause disproportionate expenditure. 7% of wine merchants have reduced their opening hours to save energy.

No easing of energy costs expected in the short term

The majority of companies expect the energy shortage to continue in the medium term. Only a quarter (24%) of companies expect the energy crisis to be over by 2023. 37% assume the situation will ease only after 2024 or in the non-foreseeable future. For the ProWein Business Report 2023, cost increases are still expected to be an on-going challenge for businesses.

Almost all producers affected by transportation issues and supply chain disruption

The simultaneous recovery of the global economy after Covid led to a surge in demand for transportation and disruption to global supply chains in 2021, both intercontinentally by ship and regionally by truck. The resulting capacity constraints and price increases persisted in 2022 and represent the second most significant challenge from the wine industry's perspective.

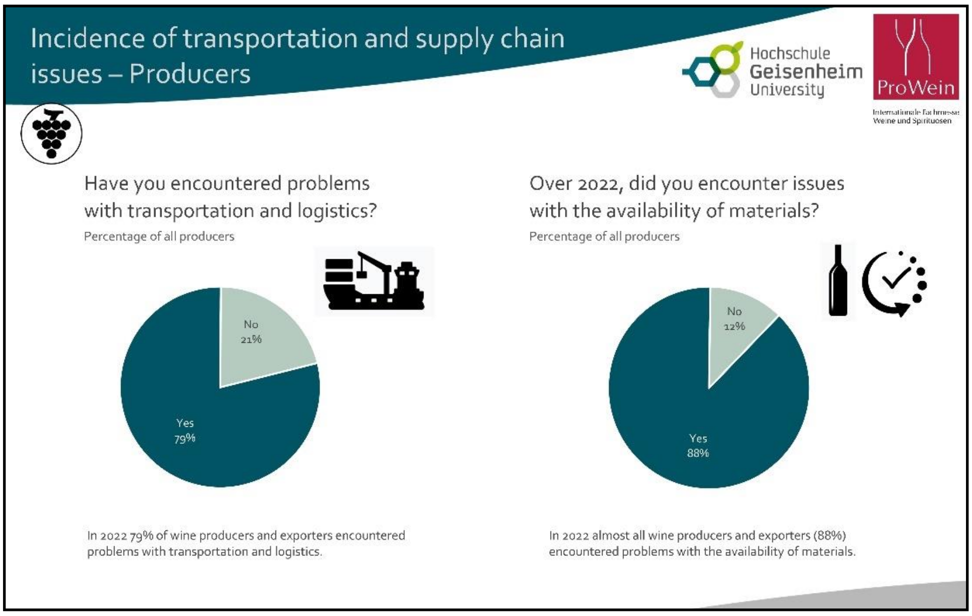

Figure 5 Incidence of transportation and supply chain issues

Almost 80% of wine producers were affected by transport and logistics issues in 2022. New World wine nations geographically remote from their sales markets such as Australia (100%), the USA (98%), Argentina (96%), Chile (91%) and South Africa (89%) had problems with international shipping. Despite greater regional diversification of their export destinations in and outside Europe, the three major wine-exporting countries Spain (85%), France (76%) and Italy (75%) were less exposed to international transportation issues. Even in countries with a stronger regional trade focus, such as Austria (68%), Switzerland (63%), Greece (57%) and Germany (48%), more than one in two companies were still affected.

Impact of transportation issues on producers

The most frequent impact cited is the sharp rise in prices for freight and containers. 70% of producers and exporters report severe delays in the delivery of goods, for which customers sometimes showed no understanding. “We couldn’t find available reefer containers for a whole five months,” stated one producer from California. “Some of the big shipping companies didn’t even call at the Pacific ports anymore.”

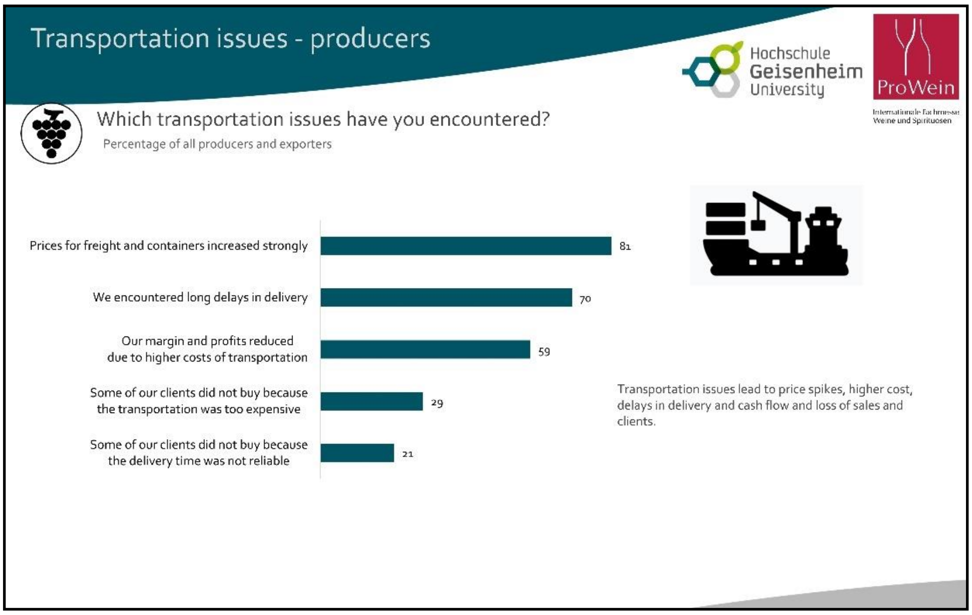

Figure 6 Concrete transportation issues for producers

The higher costs for transportation and handling had a negative impact on margins and profits for 59% of companies. 29% of wine producers and exporters lost sales and customers because the high transportation costs made the planned business unprofitable. This mainly affected wine exporters from Australia (56%), Argentina and Chile (58%). For 21% of producers, some customers did not order because delivery times could no longer be reliably met. Wine producers from Argentina, Chile and the USA (all 37%) were particularly affected, as were South Africa (33%) and France (33%). "We weren't able to guarantee customers delivery times or delivery conditions," said one producer from Germany.

Extent of supply issues for glass, carton and wine closures

The increased energy costs and broken supply chains also made themselves felt among wine producers through significant price increases and supply bottlenecks for materials, spare parts and auxiliary materials. At 92%, virtually every wine producer had to contend with the limited availability of glass bottles. Large orders from other industries were often brought forward at glassworks because of higher margins, while some glass manufacturers shut down their production altogether with a maintenance break because of the high energy costs.

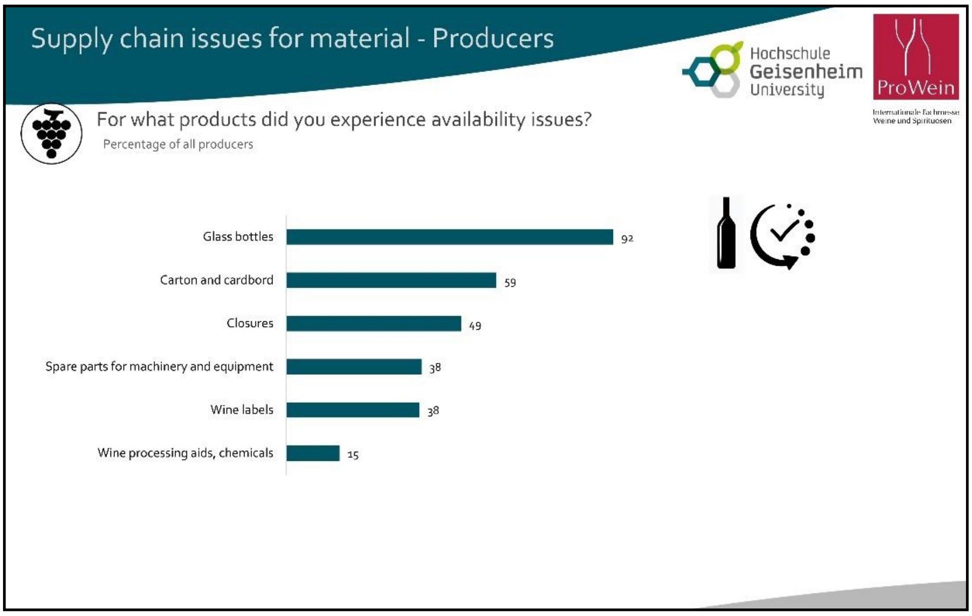

Figure 7 Supply bottlenecks for various producer materials

Carton and cardboard were in short supply at 59% of companies due to the high prices for pulp and wood. Waiting times and prices also rose sharply for other products made of wood, such as wooden pallets, wooden crates and vineyard stakes. The situation was similar with regard to the availability of screw caps (long caps) made of energy-intensive aluminium. One in four wine producers were unable to procure spare parts for machinery and equipment in time, resulting in temporary production stoppages. Chemical auxiliary materials and ingredients in wine production, on the other hand, were comparatively easy to supply. Difficulties were experienced above all with the energy-intensive products dry ice, CO_2 and fertiliser.

Producer response to disrupted supply chains

Producers reacted to the supply shortages by stockpiling more – but this in turn led to an increase in demand. Quite a few wineries bought up all the glass bottles available and stored them in large quantities on their premises. When possible, companies (39%) switched to other suppliers – if they were able to deliver – and sometimes offered higher prices or took charge of transportation to their premises at their own expense (19%). Every second wine producer (47%) had to adjust and postpone their production and filling schedule because of too long waiting times and unavailable materials. Often, this meant only inefficient partial filling could be carried out, resulting in higher filling costs. Where possible, product specifications were adapted and other available bottle types or colours as well as closures were used (47%) – as long as the customer also accepted this. Special shapes, such as the trendy diamond-cut bottles, often had to be dispensed with altogether due to supply stoppages.

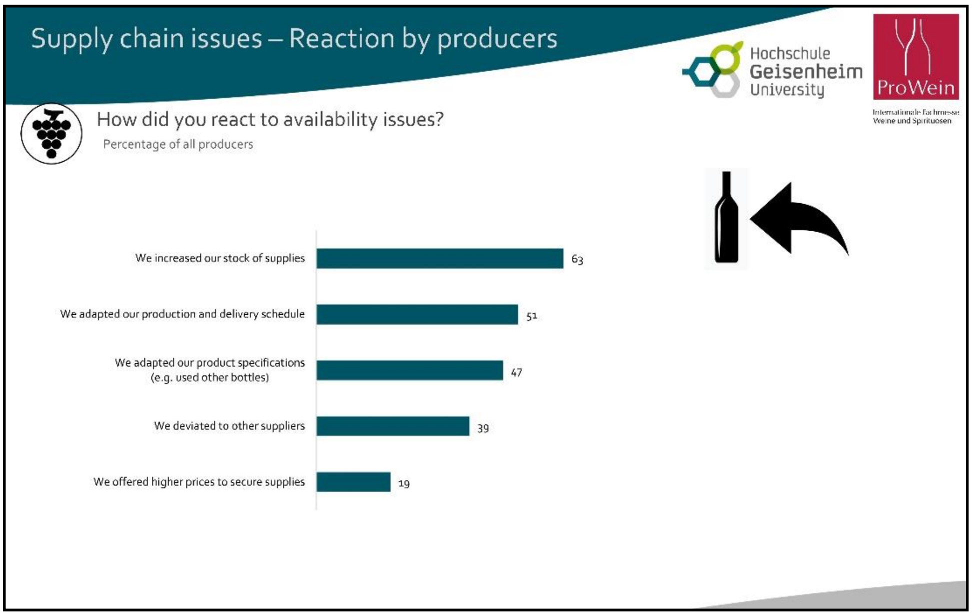

Figure 8 Producers' reaction to supply bottlenecks

Implications for future wine packaging

Some wine industry experts even see a flip in trends, moving away from strong product differentiation towards a few standard bottles due to the supply bottlenecks. This could help to avoid supply bottlenecks. The shortage of glass bottles also fuelled debate on alternative wine packaging and local deposit systems with reusable bottles. The Special Report "Opportunities for Alternative Wine Packaging" care of the ProWein Business Report published in February 2023 will go into this in detail.

Economic impact of disrupted supply chains

Supply chain disruptions were significantly more time-consuming for 73% of producers. Finding free freight capacity and available glass bottles, managing delivery delays, rearranging filling schedules and communicating with customers waiting for the wines was extremely labour intensive for many firms. "We had no end of hassles and discussions". Almost one in two wine producers (44%) were unable deliver their products as planned despite their best efforts. The delivery delays and higher transport costs led to 24% cancelling orders or not being able to close deals as planned. A quarter (26%) of producers therefore have higher stocks of unsold goods than planned.

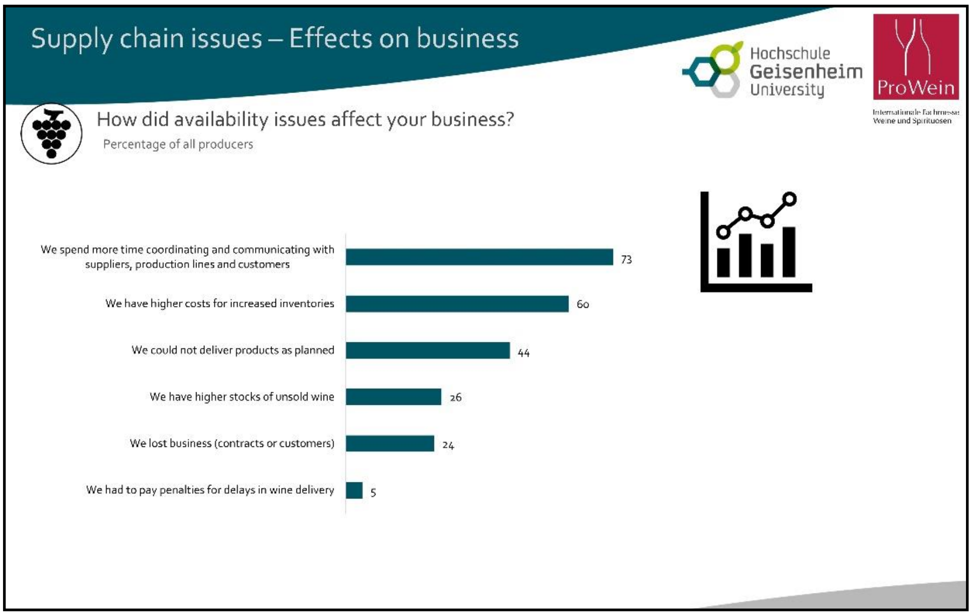

Figure 9 Impact of supply chain disruption on businesses

The stockpiling of materials led to higher capital commitment and thus higher costs. Local importers and exporters also had to keep additional goods in stock to ensure delivery during transport delays. This resulted in additional costs for renting storage space and funding stockpiles. The long transportation times had an impact on company liquidity due to severe payment delays: "If it takes two to three months for a container to arrive in the USA, then I have to expect a delay in cash flow of 150 days instead of the previous 60 days."

Producers cushion impact on trade

Wine producers managed to successfully cushion the trade from a large proportion of the supply problems. As a result, the wine trade was significantly less affected. Only one in two wine traders reported delivery problems. For these wine traders it was largely only a few wines (5-25% in their portfolio) that were affected in terms of availability. Only one in five (18%) affected traders had supply problems for more than 25% of their products on offer.

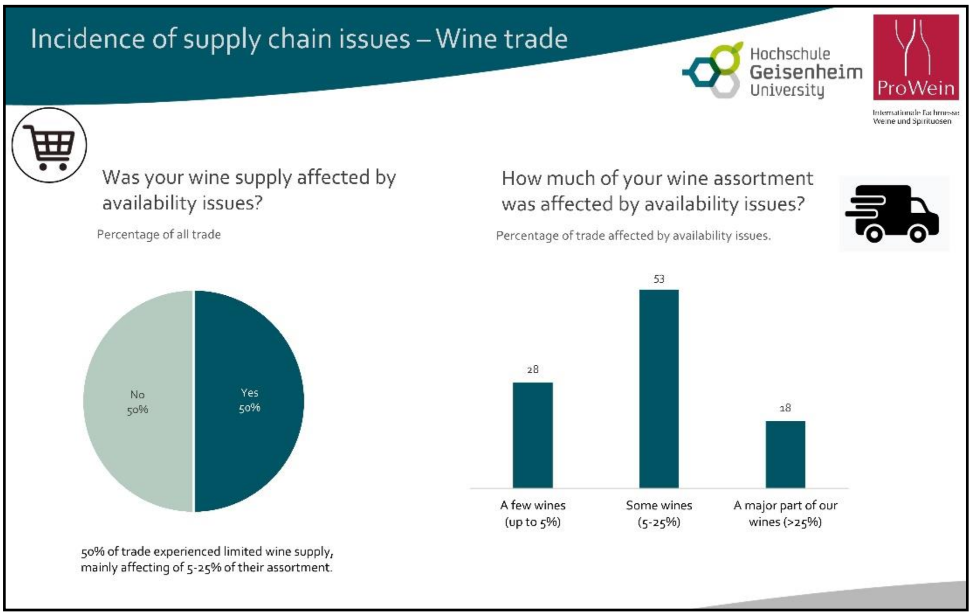

Figure 10 Impact of delivery delays on trade

Trade loses sales due to delivery problems

Of the 50% of wine traders affected, one in two (51%) lost sales because customers were unable to buy the wines they wanted. Wine merchants responded to the producers' delivery problems with a comprehensive package of measures (see Figure 11). They partly switched to other producers to fill supply gaps, triggered orders with significantly longer lead times and kept larger inventories. As with wine producers, wine traders needed greater coordination and planning efforts as a result. Wine traders' data on cancelled orders are in line with those of the producers. One in four or five wine traders cancelled orders because of unreliable delivery or too high transportation costs.

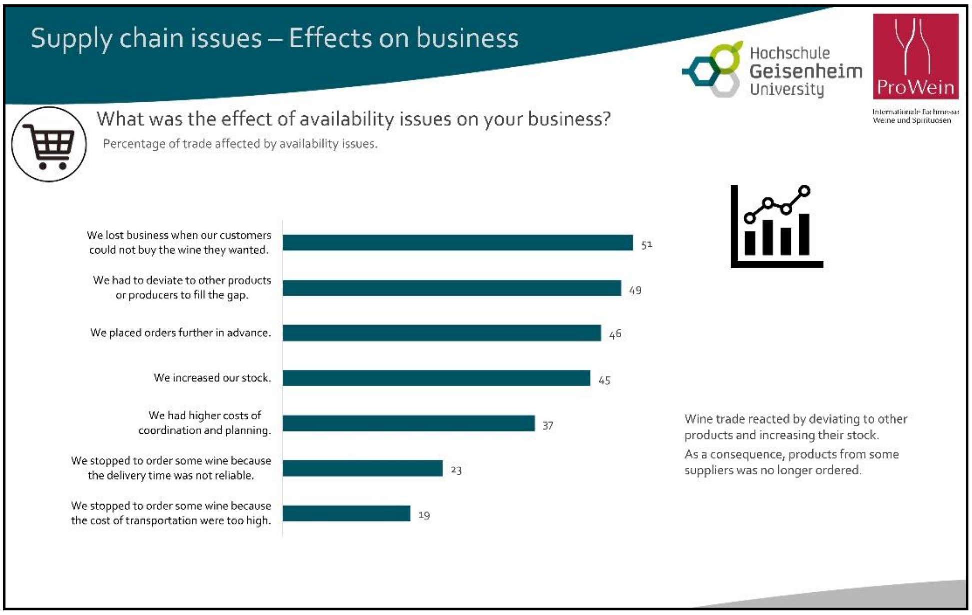

Figure 11 Impact of supply problems on trade

Sector does not expect supply problems to be resolved in the short term

From the industry's perspective, transportation and supply issues will continue to present a major challenge for their business. Only 27% of wine producers and traders anticipate these to be resolved in 2023. 31% expect the situation to ease in the following year 2024 while 23% see no change in the near future. Wine traders are slightly more optimistic than producers in this forecast.

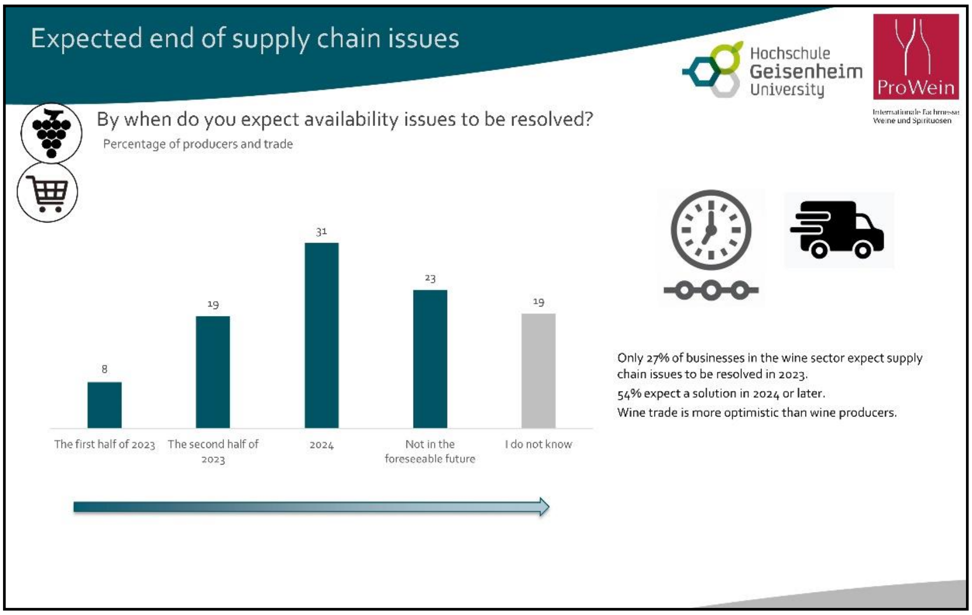

Figure 12 Expected end of supply chain issues

TOPIC 3

The industry's response to the crisis

Producers plan to open up new markets and focus on market trends and innovative products

The industry as a whole expects a decline in consumer spending on wine

Premium and luxury segments expected to be stable

Companies want to open up new markets

Companies in the wine industry are taking a range of measures to respond to the economic crisis. Overall, proactive measures to open up new domestic and export markets with innovative products predominate. In particular, export-focused producers from Portugal (84%), Australia and Spain (83%) as well as France (80%) are actively seeking new sales markets. This is somewhat less true for producers from Germany (36%) or Austria (50%) – who are more focused on their domestic market.

Market trends and innovative products as an opportunity

From the producers’ perspective, new market trends (46%) and innovative products (27%) are ways to mitigate the impact of the economic crisis. Producers from Hungary (62%), Spain (56%) and Chile (50%), in particular, want to gear their products more to market trends. Low or no alcohol wines (no-low wines) are seen as sales trends for 2023 by 33% and 24% of the industry respectively. A special report accompanying the ProWein Business Report entitled “Opportunities for No/Low Alcohol Wines” will be published in February 2023.

A successful strategy to increase profitability will include several measures. One producer sums it up as follows: “We do a little bit of everything, we try to meet customer expectations in all respects (packaging, taste, trends, ...) and provide a perfect and regular service to take market share from those colleagues not able to do it anymore.”

In these measures, the leading international wine and spirits trade fair ProWein will play an important role in developing contacts in new export markets, identifying market trends and forging new business contacts.

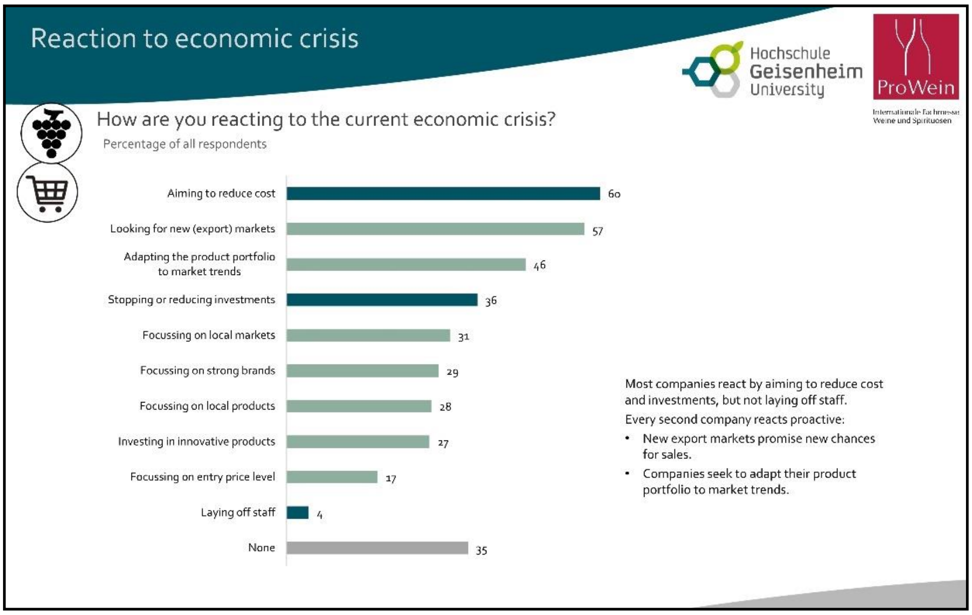

Figure 13 Reaction of companies to the economic crisis

Cost reduction and process optimisation needed

In addition to proactive market development measures, 60% of businesses are taking measures to reduce their costs (darker bars in the figure above). The industry will have to further optimise its processes to achieve this. Producers want to mechanise and digitalise their processes more to reduce costs. Traders say they will analyse all items of expenditure and renegotiate purchasing conditions and volume purchases with producers.

Only some plan to reduce investments

Only one third (36%) of companies plan to stop or reduce their investments. This is especially true for producers from Germany (57%) and Australia (67%). Investments, such as in online marketing, are indispensable for future economic success for many companies. Of the major wine nations France (22%), USA (29%) and Italy (30%), only a few are therefore planning to reduce investments in the future. Some businesses want to take advantage of financial advice in order to make their business crisis-proof.

To tie up less capital, wine traders wish to focus more on fast-moving products and reduce the number of wines listed and inventory. Given the severe staff shortages and the great importance of well-qualified workers, only 4% want to save costs by cutting jobs.

Less consumer spending on wine expected

When it comes to expectations of how wine consumers will react in the economic crisis, the industry is only partially in agreement due to different positioning on the market. Most expect consumers to spend less on wine and buy at lower prices. Nevertheless, only 17% want to focus more on the entry-level price segment. For some wine merchants, “cheap is a dead-end street”.

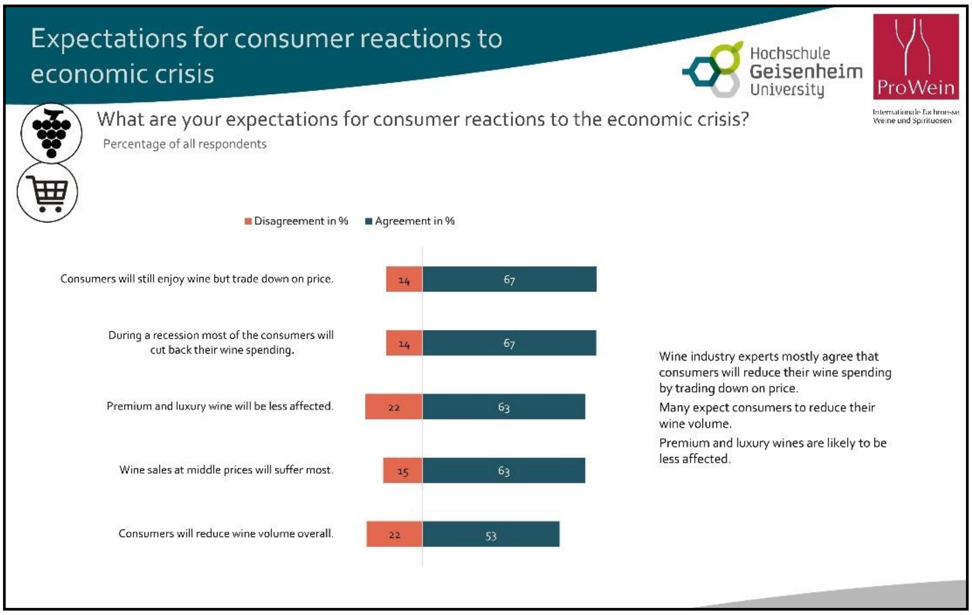

Figure 14 Expectations for consumer buying behaviour in the crisis

Premium and luxury segment expected to be stable

In the premium and luxury segment, 63% expect only the most minor drops in sales. Increasingly, producers and traders are therefore focusing on the high-price segment, also because the absolute margin there is significantly higher than in the entry-level wine segment. In return, producers want to sharpen their core brand and expand and strengthen customer loyalty through communication, higher quality and unique products. Sustainability is also mentioned as a way to raise their profile. Larger wine traders are relying more on their own brands and direct imports to boost their margins. Producers, in turn, can only counter this trend with their own strong brands to secure their share of the margin. Only half expect consumers to reduce their wine volume overall. Two thirds of the industry (63%) expect the strongest declines in the mid-price segment.

TOPIC 4

Attractiveness of the markets

Which origins are particularly interesting for the wine trade?

Where do exporters see good sales opportunities for their products?

Wine traders' assessment of top wine origins

In order to open up new markets and export markets, it is advantageous for producers to be able to assess the market opportunities for their products. Traders and importers were therefore asked about the attractiveness of wine origins and production countries. This means producers gain valuable information on those target markets where they have good listing and sales opportunities.

Figure 15 shows the top 10 wine origins from the perspective of the USA, Canada and Brazil's wine traders. To complement the report, the top 10 countries of origin are available for a total of 16 wine markets. In addition to the countries presented in Figure 15, these are also Germany, Austria, Switzerland, Great Britain, Ireland, Italy, the Netherlands, Belgium, the Czech Republic, Sweden, Denmark, Finland and Norway.

Import - attractiveness of origins 2023

Which wine origins are most attractive to you in 2023?

Percentage of trade who perceive origin as attractive.

Rank	USA	%	Canada	%	Brazil	%
1	Italy	54	France	81	Portugal	89
2	France	50	Italy	81	Argentina	78
3	Spain	50	Spain	81	Chile	67
4	USA	42	USA	50	Spain	67
5	Argentina	38	Portugal	44	France	56
6	Portugal	29	New Zealand	25	Italy	56
7	Chile	25	South Africa	25	Brazil	22
8	Germany	25	Argentina	19	Uruguay	22
9	South Africa	21	Austria	19	USA	22
10	Australia	17	Hungary	19	Australia	11

Italy, France and Spain are most attractive for North American wine trade followed by domestic US wine, Portugal and New World origins. Portugal and neighbouring Argentina and Chile lead the Brazilian wine demand.

Figure 15 Attractiveness of wine countries of origin in the USA, Canada and Brazil

The three big European wine-exporting nations dominate

Across all 16 markets, dominance of the classic big three European wine nations is still evident. With its high consumer orientation and innovative brands, Italy has relegated France to second place in many countries (USA, Germany, Austria, Switzerland, Ireland, the Netherlands, Belgium, Denmark, Finland). In Canada, Brazil and Norway, both Italy and France are on an equal footing. Only in Great Britain, Sweden and the Czech Republic, in just three of the sixteen countries surveyed, is France ahead of Italy. The next few years will show whether French producers can regain lost ground from their strongest competitors from Italy.

New World countries doing very well

New World origins have firmly established themselves on almost all markets, most strongly in the UK. They are mostly behind the three big classic European export countries in the top 10 ranking, but overall they occupy one third (34%) of the top 10 places across all 16 countries. Overall, the mentions are almost evenly distributed. South Africa leads slightly with 10 mentions. Australia, Chile and Argentina are tied with 9, followed by New Zealand with 8 and the USA with 7. Surprisingly, Australia is not in the top 10 in the UK, its most important sales market before the China boom. This may be an indication there is still a lot of development work ahead for wine exporters from Australia, who are urgently looking for sales alternatives to the blocked Chinese market.

Large regional differences offer many opportunities

The results also show strong regional differences based on cultural similarities and geographical proximity. Brazil and its cultural roots from Portugal as well as Great Britain with its proximity to the former Commonwealth countries are examples of this. Smaller wine countries, such as Germany and Switzerland, have regional opportunities with their neighbours. The same applies to Hungary, Slovenia and Uruguay. Eastern European producers have made it into the top 10 a total of 13 times (i.e. 8%), especially with their neighbours and in price-sensitive import countries such as the Netherlands and Great Britain.

Market attractiveness from the producers' perspective

USA the most attractive wine market internationally

The globally positive consumer climate for wine in North America is reflected in its great appeal for wine producers. The USA is also by far the most attractive sales market from the point of view of the major wine exporters France, Italy and Spain. Canada ranks second, third and fourth here.

Figure 16 shows the top 10 export markets from the perspective of producers from France, Italy and Spain. *Supplementary to the report, the top 10 export countries are available for a total of 9 countries of origin. Besides those countries featured in Figure 16 these are also the USA, Argentina, Chile, Germany, Austria and Portugal.*

Rank	France	%	Italy	%	Spain	%
1	USA	78	USA	63	USA	77
2	Japan	40	Canada	36	Germany	45
3	Canada	35	Switzerland	33	Japan	40
4	Singapore	26	China	30	Canada	39
5	UK	26	Japan	29	Netherlands	36
6	Germany	24	South Korea	29	UK	36
7	South Korea	23	Germany	25	Switzerland	35
8	Switzerland	23	UK	24	Denmark	28
9	Belgium	21	Singapore	19	Belgium	27
10	Denmark	19	Sweden	18	Poland	27

Figure 16 Attractiveness of export markets from the perspective of producers from France, Italy and Spain

Export focus Asia

France and Italy continue to be strongly oriented towards Asia. The three countries Japan, Singapore and South Korea rank among the top 10 markets for both. For producers from the USA, South Korea is even the most attractive export market – ahead of neighbouring Canada. With wine imports to China halving in recent years, China is currently less attractive as an export market than it was a few years ago. As most attractive market China is rated third by Chile, which was able to greatly increase its exports to China after the high import duties on Australian wine. China is also in the top 10 for producers from the USA and Argentina, and there is hope that wine imports to China will rise again once Covid is overcome. Whether and how quickly 2018's record figure can be reached again remains unclear.

Growth market Brazil

The rising wine market of Brazil ranks second among the most attractive export markets for producers from Argentina, Chile and Portugal. These three countries are leveraging their geographical and, in Portugal's case, strong cultural ties here to tap into this growth market for wine.

Consolidated markets in Europe

Even though the economic climate in the UK has darkened, the country is a top-10 market for all major wine exporters. It is in the top 3, its highest ranking, for wine producers from the USA and Argentina – again underlining the great importance of New World wines on the British market. Despite the energy crisis, Germany is also an attractive export market for many large wine producers. For Spanish winemakers, Germany is the second most attractive market, right after the USA. The smaller export countries Germany and Austria focus their exports more regionally on neighbouring European countries. For wine producers from Germany, the Netherlands and Scandinavian countries are the most attractive. Austrian wine producers are oriented towards their neighbours Germany and Switzerland, followed by the USA and Benelux.

Please note:

This study was commissioned by ProWein and carried out by the Department of Wine and Beverage Business at Geisenheim University under the direction of Prof. Dr. Simone Loose. Geisenheim University is known worldwide for its research and teaching in the field of wine science.

ProWein and Geisenheim University look forward to continuing the ProWein Business Report successfully in the coming years. ProWein thus provides the wine industry with a globally unique, regular longer-term "market barometer" answering key sectoral questions in annual special topics. We would like to thank the participants of the survey and hope that wine producers and marketers continue their active participation.

Upon request, each participant will receive the detailed ProWein Business Report free of charge.

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