

Uncorking the Opportunities

Introduction

Indian terrain wins hands down in terms of the global grape productivity index, as evidenced by the per hectare production, which is almost three times the world average. In 2010, the average world productivity stood at 9 metric tons, or MT, per hectare, while India alone clocked an impressive 26 MT per hectare. The sad part of the productivity story is the negative growth of -1% year-over-year, from 2000 to 2010; however the area under cultivation and production recorded a positive CAGR of 8% and 7% respectively. The total grape production in India is approximately 2.3 million MT with a cropped area of approximately 88,000 hectares. Out of this total production, less than 2% is utilized for wine production.

Wine-specific grape varieties such as French Sauvignon Blanc, Californian Chenin Blanc, Zinfandel, and Riesling are new to the Indian soil and have only been introduced by leading wine manufacturers in the past decade. Indian farmers are also experimenting now and adopting wine-specific varieties as these fetch them comparatively better returns compared to normal variants. As the demand increases in coming years from retail and institutional segments, the farmers are poised to convert their grape farms into vineyards.

Indian Wine Market – Many More Cases to be Corked

In a country with a billion plus population, only a few million consume wine. It is estimated that wine in India has penetrated only 1-2 million individuals, thus resulting in a very low per capita consumption at the national level. The global per capita consumption of wine is estimated at 4 liter per annum while the Indian figure stands at 4.6 milliliter, or ml, as per government sources. According to industry estimates, the per capita consumption has gone up and is estimated to be 9-10 ml per annum.

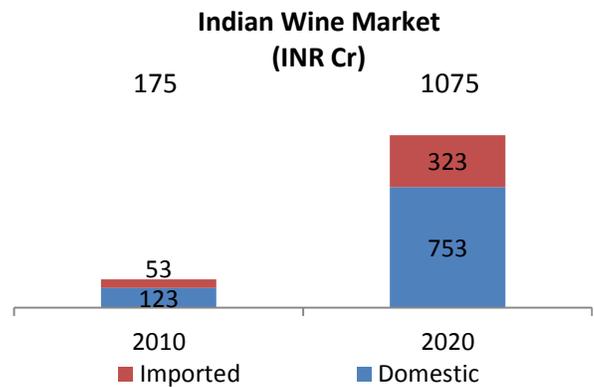
The overall Indian wine market can be estimated at 9.75 lakhs cases¹, or INR 175 crore (USD 31.59 million) at wholesale price, and is growing at a CAGR of 20-25%. The overall market can be bifurcated into domestic and imported markets which account for 70% and 30%, respectively. The Indian wine landscape can also be bisected in terms of sales channels, into retail and institutional sales, which account for 60% and 40%, respectively.

While wines with foreign origins are managing to attract customers Indian wines are not far behind, offering a similar experience at affordable price points. It is estimated that local wines will maintain a market share of 70% for at least the next 8-10 years. Currently, Indian wine retail markets are flourishing with many foreign origin brands, some of which include Bird in Hand, Sacred Hill, Gerard Bertrand, Framingham, Castello di Bossi, Callabriga, and Two Oceans. For the Indian wine retail market, the imported wine origins can broadly be classified into the Old and New world, with the former including countries like France, Italy, and Portugal, while the latter includes geographies such as Australia, South Africa, Argentina, and New Zealand.

Wine Retailing – The Road Less Travelled

Wine retailing in India is still a mystery; retailers need to understand that the Indian palate is not accustomed to wine and therefore, consumer education is a must. Once the consumer is convinced and satisfied with the taste he is bound to adapt to the product. Apart from brown and white spirits, there are many additional aspects associated with wine such as type, year of harvest, grape variant, origin, and brand which need to be communicated to the consumer in educative ways at the time of purchase. Apart from these direct aspects, food pairing and ways to consume wine are also areas for increasing awareness.

It is commonly seen that the introductory purchase of wine happens through an organized format, but once consumers are well-versed with wine they do not mind buying it from any format. **Proper consumer knowledge serves as the primary sales trigger and organized retailers are capable of capitalizing on the same.** Among organized retailers, only a few such as SPAR, Spencer's, Food Hall, and FoodWorld Gourmet have somehow managed to solve the mystery and cashed in on the opportunity.



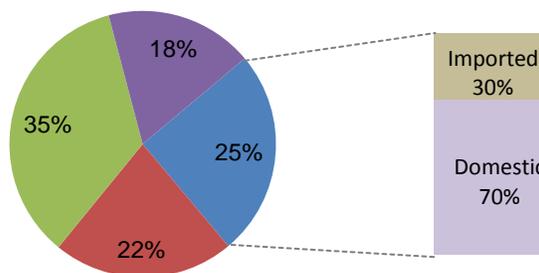
Source - Industry Sources, Technopak Analysis

¹ Case includes 10 bottles of ~ 750 ml volume accounting for 9 liters of Wine

On average, such organized retail stores sell 1000-1200 bottles of wine per month, accounting for INR.1-1.25 crore (USD 0.18 – 0.23 million) in sales annually. As per one estimate, the liquor segment accounts for annual sales of INR 5-5.5 crore (USD 0.90 – 0.99 million) . Wine is one of the fastest growing alcoholic beverage segments accounting for 25% of the total alcoholic beverage sales from organized retail outlets.

Apart from these organized retail segments, there are few premium spirits stores dedicated to alcoholic beverages such as High Times (DSIIDC government shop), House of Spirits, The Liquor Store, etc. These stores post higher sales than organized retailers like Spencer’s and SPAR as these are dedicated stores and attract specific customers. Apart from these organized stores a huge chunk of wine sales are through unorganized stores which account for a substantial share.

Alcoholic Segment Sales Split



■ Wine ■ Beer ■ Brown Spirits ■ White Spirits & RTD

Source - Industry Sources, Technopak Analysis

The new phenomenon of wine-based food service restaurants and cafes (such as Vinoteca and Ivy Wine Café & Bistro) are gaining strength in India, though the penetration is limited to top 3-4 cities and some of the major tourist destinations. Apart from these major consumption centers, wine companies are also trying outlets in nearby rural areas or vineyards, with the objective of expanding sales and increase brand awareness (such as Ivy family restaurant & wine bar – Narayangaon). The concept of Wine and Dine mainly works through educating the customer about the appropriate wine, followed by a suitable food option. These formats also incorporate a sophisticated ambience to augment the wine consumption mood. As per industry estimates, over 70% of the footfalls at these outlets are female walk-ins. These food service formats have received an overwhelming response and have planned expansions to other major consumption centers. On average, a wine-based food service café retails 1500-1800 wine bottles per month. The average price of domestic wine at such cafés ranges from INR 150-1500, while that of imported wine ranges from INR 1500-2500. The fastest-selling domestic wines in any typical wine-based food service outlet range in price from INR 600-750 while imported wines are between INR 1500 and INR 1800. The sales split is 80:20 between domestic and imported wines. The basic advantage of these wine-based food service outlets is the serving size; a consumer is not forced to procure a whole bottle and can taste a glass of wine before making the final purchase. To increase awareness and penetration some of the leading wine cafés also allow 2-3 free wine tasting sessions to inspire new consumers.

In Conclusion

While wine retail is catching up with the Indian consumer, the per capita consumption still needs to increase. The sector displays ample opportunities, as wine in India has just arrived and consumer acceptance is assured. It can be easily derived that wine retailing is an organized phenomenon and that consumers will prefer to purchase wines from organized retail formats. Apart from organized stores, food service restaurants and institutional segments are promising outlets. There are still many state level licensing challenges but the Indian government has identified wine as a booming sector and has extended support in terms of subsidizing processing facilities and reducing VAT. By analyzing the alcohol consumption of the Indian consumer, it can be said that traditionally consumers were more inclined towards spirits and beer, while wine has been steadily gaining acceptance. This tendency can also be attributed to availability and affordability and lack of proper retail channels. India has witnessed a huge increase in wineries supporting the production and distribution mechanism; there is now a clear-cut need for world class wine retail infrastructure.

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