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## AN ANALYSES OF THE US IMPORT MARKET FOR WINE WITH SPECIAL REFERENCE TO OPPORTUNITIES FOR SOUTH AFRICA<sup>1</sup>

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### Abstract

The US is the fourth largest importer of wine in the world. Wine consumers do not freely substitute one type of wine for another therefore each segment of the industry could represent a niche market for a certain type of wine. Wine is almost exclusively sold through labelling and brand recognition. Brand strength can be measured. Well known brands are consistently out selling others. Varietals, e.g. Chardonnay, have shown the most growth in recent years. US wine imports have declined substantially since 1985 but certain categories/variety/brands still show growth. Wine should be price-competitive within the quality category it is perceived to be. There are distinct price boundaries or price points for any given varietal. The relative medium priced wines, \$5-10 per bottle, show the most growth. SA wines can be exported profitably within most categories. However, selecting the target market and price category to match the product and brand is important.

### Uittreksel

'n Ontleding van die VSA invoer mark vir wyn met spesiale verwysing na geleenthede vir Suid-Afrika

Die VSA is die vierde grootste invoerder van wyn in die wêreld. Wyndrinkers substitueer nie vrylik tussen verskillende tipes wyn nie daarom verteenwoordig elke segment van die bedryf 'n nis mark vir 'n spesifieke tipe wyn. Wyn word feitlik eksklusief verkoop deur middel van etiketering en handelsmerkherkenning. Die waarde van 'n handelsmerk kan bepaal word. Bekende handelsmerke handhaaf deurlopend hoër verkope. Variëteit wyne, byvoorbeeld Chardonnay, het die meeste groei getoon die afgelope aantal jare. VSA wyn invoere het aansienlik gedaal sedert 1985 maar sekere kategorieë/variëteite/handelsmerke groei nog steeds. Wyn moet prysmededingend wees binne die kwaliteitskategorie waarin dit beoordeel word. Daar bestaan definitiewe prysgrense of pryspunte vir elke wyn variëteit. Wyne met relatief gemiddelde pryse, \$5-10 per bottel, het die meeste groei getoon. SA wyne kan winsgewend uitgevoer word in meeste pryskategorieë. Die keuse van 'n teikenmark en pryskategorie sodat dit pas by die produk en handelsmerk is belangrik.

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### 1. Introduction

In July of 1991 the United States (US) abolished the sanctions which had been imposed on all agricultural imports from South Africa (SA). This raised the question: What opportunities exist for SA agriculture exports after a prolonged absence from the US market. This article attempts to analyse the US import market for wine with the objective of providing a clear indication of its potential for SA exports and what it will take to develop the market. For more detailed background information see Van der Vyver (1992a and 1992b).

This case study is structured as follows: It starts with a overview of the US wine industry which includes general information regarding production and trade pattern. This is followed by an analysis based on the four marketing tools that form the marketing mix namely: product, place (or distribution), price and promotion. A conclusion on the export potential ends the report.

### 2. Overview

Wine is produced in most countries around the world. Table 1 provides a statistical overview of wine production, per capita consumption and trade from selected countries in the world.

The United States is the fourth largest importer of wine in the world by volume. Although wine imports have been declining since 1984 from 541 million litres to 255 million litres in 1990, there is still a significant market

for the export of wine, especially from a relatively small exporting country such as South Africa.

### 3. Product

One type of wine can differ considerably from another. It is well known that wine consumers do not freely substitute one type of wine for another. This complicates the marketing of wine. For an analysis of the US wine import market, a researcher should look at each segment of the wine market separately, since each segment could represent a niche market for a certain type of wine.

Table 2 lists the different types of wine from various countries exported to the US in 1990 by volume, value and value per volume. It is important to note how different countries target different price segments in the market. France, for example, which has built up an image of a top-quality wine producer, succeeds in obtaining a significantly higher average \$/litre price for its wine exports to the US than its competitors.

Wine, unlike most other agricultural export products, is a branded product. Wine is almost exclusively sold through labelling and brand recognition. Successful marketing of South African wine in the US, where, unlike in South Africa, many wines from all over the world are available, will in part depend on how successful the exporter is in obtaining brand name recognition.

As wine labels proliferate and competition for limited retail shelf space intensifies, the subject of brand value is gaining increased attention in the wine industry.

Table 1: Wine production, per capita consumption and trade from selected countries, 1989

Country	Production (million litres)	Per capita consumption (litres)	Exports (million litres)	Imports* (million litres) (Rank)
France	6105	74	1303	572 (3)
Italy	6003	72	1325	66 (16)
Spain	2907	48	498	n.a.
U.S.S.R	2278	9	479	230 (5)
Argentina	2040	55	21	n.a.
U.S.A.	1563	8	79	289 (4)
West Germany	1328	26	296	885 (1)
Romania	1004	43	50	n.a.
South Africa	971	9	6	n.a.
Portugal	770	53	163	183 (10)
Other	4161	-	887	-
World Total	29127	-	5107	-

\* Other major importers are (rank in brackets): UK 655 million litres (2); Netherlands 217 million litre (6); East Germany 201 million litre (7); Switzerland 199 million litre (8); Belgium 185 million litre (9)

Source: Wine Institute, 1991

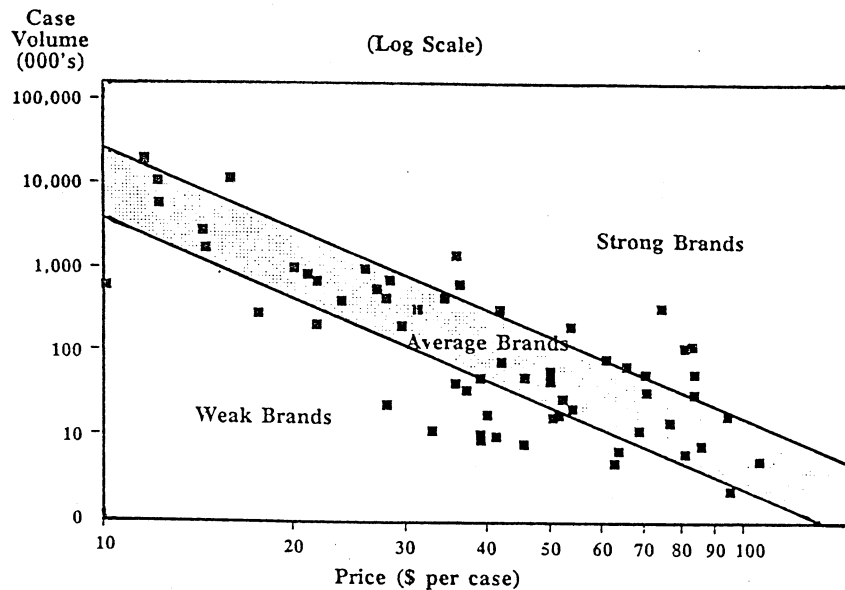


Figure 1: Brand strength map  
Source: Hambrecht & Quist, 1988

Although a strong brand is desirable, determining the specific value of a brand - and how to achieve it - has often been a complex and murky endeavour. Hambrecht and Quist (1988) conducted research in an attempt to quantify and clarify brand strength, to show that brand strength is measurable, and that its effect on profitability and company value is positive.

How is the strength of a brand of wine measured? A strong brand should allow a company to defy economic

logic by selling more wine of equal quality at a higher price than its competitors. In Figure 1 Hambrecht and Quist (1988) plotted 62 wineries by case volume and average f.o.b. price per case. Although the overall trend clearly shows that a higher price leads to lower volume, many individual wineries achieve higher prices and higher volumes than their competitors - these are the wineries with strong brands. Brand-building is a complex endeavour that should not be oversimplified.

Table 2: Volume and value of foreign shipments into the US by type and country, 1990

Country	Table	Dessert	Sparkling	Vermouth	OSN**	All wine
1 000 000 litre*						
Italy	83,6	0,9	14,4	7,5	2,3	108,8
France	55,4	0,1	12,2	1,0	0	68,6
Spain	3,6	5,1	11,9	0	1,5	22,2
W.Germany	15,2	0	0,2	0	0	15,5
Chile	8,4	0	0	0	0	8,4
Portugal	7,0	1,3	0,1	0	0	8,4
Australia	4,4	0,1	0,1	0	0	4,6
Other	14,8	3,3	0,1	0	0,7	18,7
Total	192,4	10,8	39,0	8,5	4,5	255,2
US \$ 1 000 000*						
Italy	197,9	2,9	60,3	16,2	3,2	280,6
France	257,4	0,9	171,2	2,1	0,2	431,9
Spain	11,5	22,2	38,2	0	1,8	73,7
W.Germany	43,4	0	0,9	0	0,1	44,4
Chile	14,6	0	0,1	0	0	14,7
Portugal	14,2	11,2	0,2	0	0	25,6
Australia	18,5	0,4	0,2	0	0	19,1
Other	22,0	8,7	1,0	0,2	1,3	33,0
Total	579,5	46,3	272,1	18,5	6,6	923,0
US \$ per litre						
Italy	2,37	3,22	4,19	2,16	1,39	2,58
France	4,65	9,00	14,03	2,10	-	6,30
Spain	3,19	4,35	3,21	0	1,20	3,32
W. Germany	2,86	0	4,50	0	0	2,86
Chile	1,74	0	1,00	0	0	1,75
Portugal	2,03	8,62	2,00	0	0	3,05
Australia	4,20	4,00	2,00	-	-	4,15
Other	1,49	2,64	1,10	2,18	1,86	1,76
Total	3,01	4,29	6,98	2,18	1,47	3,62

\* Volumes less than 50 000 l and amounts less than \$50 000 are rounded to zero

\*\* Other fermented alcoholic beverages

Source: Wine Institute, 1991

Nevertheless, an investigation of some of the characteristics of the wineries provides some valuable insights. From Table 3 it is clear that building a brand is a long-term process. All strong brands on the map are over 14 years old, with a median age of 15 years. True brand strength requires years of consistent image-building and differentiation in the market place. Part of this long-term effort appears to involve product focus. The average number of different varietals in the product

range indicates that strong brands have been built around a small, focused number of wines. Research undertaken by Innovative Wine Marketing (1991) in Chicago confirms this. In a survey covering 285 brands it was found that 34 or 11,9 percent occupy 50 percent of the slots committed to the 6 varietal categories surveyed.

Table 3: Achieving brand strength

Strength	Age of brands		Average # of varietals in product range	Sales and marketing expenditure (% of Sales)
	Range	Median		
Strong Brands	14-50+	15	4	12%
Average Brands	16-50+	7	9	16%
Weak Brands	5-50+	8	14	15%

Source: Hambrecht &amp; Quist, 1988

Table 4: Supermarket share by brand (% share of sales) 52 Weeks ended 2/10/91

White Zinfandel		Chardonnay		Cabernet Sauvignon	
Brand	%	Brand	%	Brand	%
Sutter Home	21	Glen Ellen	11	RMW Woodbridge	10
Gallo	17	Sebastiani Country	9	Sebastiani Country	9
Beringer	15	Kendall-Jackson	7	Sutter Home	9
Inglenook Navalle	5	Fetzer	6	Beaulieu	5
RMW Woodbridge	5	Napa Ridge	4	Glen Ellen	5
Top 5	63	Top 5	37	Top 5	38

Source: Infoscan, 1991.

The wine business is becoming a "winner-takes-all proposition" with the same brands winning consistently. Deloitte & Touche, through Jobson (1990), found that large producers continue to lead the industry, with the premium segment dominating. Top performers continue to be successful due primarily to their efficient marketing and distribution strategies, and because they produce the right varietals within price segments. The most profitable and fastest growing (growth in brackets) varietals during 1990 were Sauvignon Blanc (16,2 percent), Cabernet Sauvignon (17,4 percent), White Zinfandel (20,8 percent) and Merlot (50 percent)(Impact, 1991).

Infoscan (1991) presented similar evidence in a survey on wine sold through supermarkets nationwide. Table 4 lists the top five brands in White Zinfandel, Chardonnay and Cabernet Sauvignon by dollar volume. In each category the top brands account for more than 35 percent of total sales, and are growing. To conclude, the strength of a branded wine in the US is measureable and generally has a strong positive relation with profitability and company valuation. Building a brand is a complex process requiring time, focus and increasingly also investment, but it is a way of creating sustainable competitive advantages.

Branded products should not be confused with varietals, another major trend in the US. A varietal is a wine produced from only one type of cultivar, e.g. Cabernet Sauvignon, while a generic wine usually is a blend of different cultivars. The success of Californian varietals in the US in the mid-1980's has brought major changes to wine marketing. Producers who previously did not market varietals felt compelled to introduce varietal line extensions, or to emphasise the varietal aspects of their products. As a result the varietal concept is now internationally accepted and established. However, most branded wine producers have taken a middle road - keeping their brand name prominent on the label and combining it with the name of the grape variety (Impact, 1991).

#### 4. Distribution

The decline of wine imports into the US has become so serious in the past six years that, before SA exporters consider exporting to the US, it would be worthwhile analysing reasons for this trend. After a decade of spectacular growth, shipments of imported table wines began to decline in 1985. By 1990 imported wines have declined by 52,9 percent in total compared to the peak reached in 1984.

The concurrence of four negative factors within the same time-frame namely fluctuations of currencies, adulteration scandals, anti-alcohol attitudes, and increased competition from coolers, blushes (light rosé type wine) and varietals - probably had a synergistic negative effect on imports (Wine Investor 1991). Regardless of the reasons for the decline of imports these past six years, the trend has not been turned around.

Different categories of imports exist, of which some have fared much worse than others. It is important to at least avoid these categories. The Wine Investor (1991) divides white wine imports into three categories: traditional dry table wines, quasi-traditional off-dry table wines, and speciality wines. In 1990, speciality wines - especially sweetish Italian wines, but also Portuguese rosé and bottled sangria - continued the declining trend that started in 1985. The average 5-year decline for the category is 71,79 percent. The smallest decline since 1986 was for traditionals, whose decline was a comparatively modest 27,1 percent. Quasi-traditionals fell by 59,6 percent.

Imported table wines made in the traditional style is potentially the strength of the imported sector. Traditionals at present - for the first time in more than a decade - hold the largest share of the American market for imported wines. During 1990, six of these brands showed increases while 16 showed declines. From 1986 to 1990, 7 brands were up while 14 were down and 1 stayed the same.

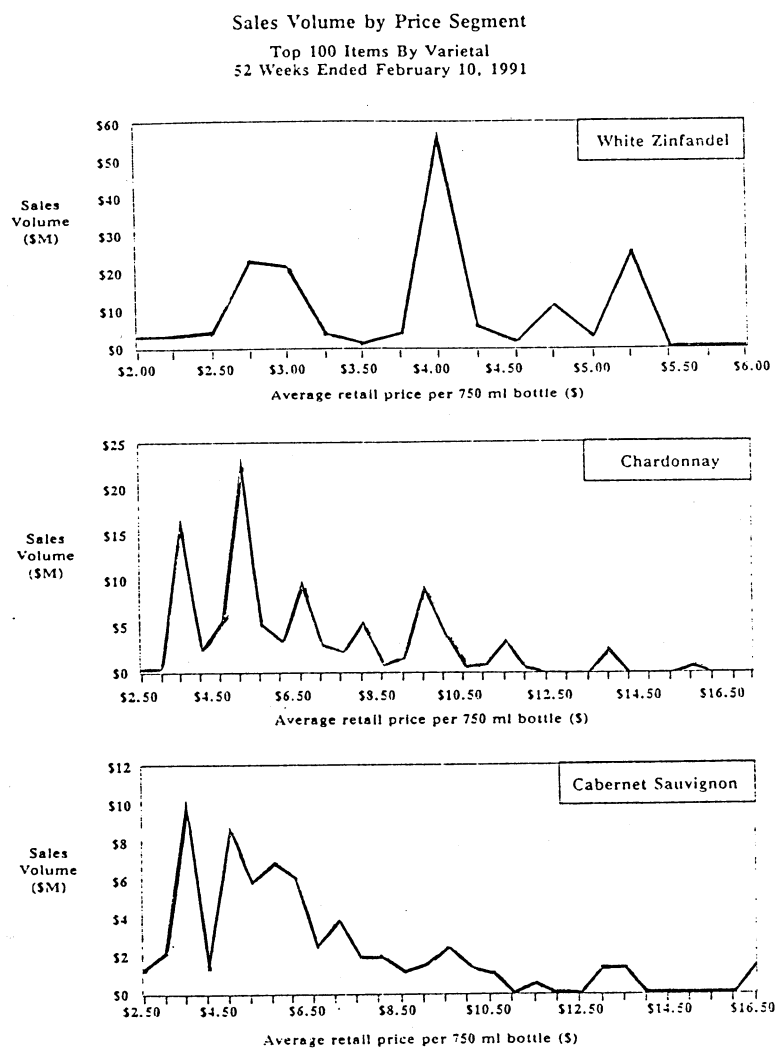


Figure 2: Sales volume by price segment  
Source: Infoscan, 1991.

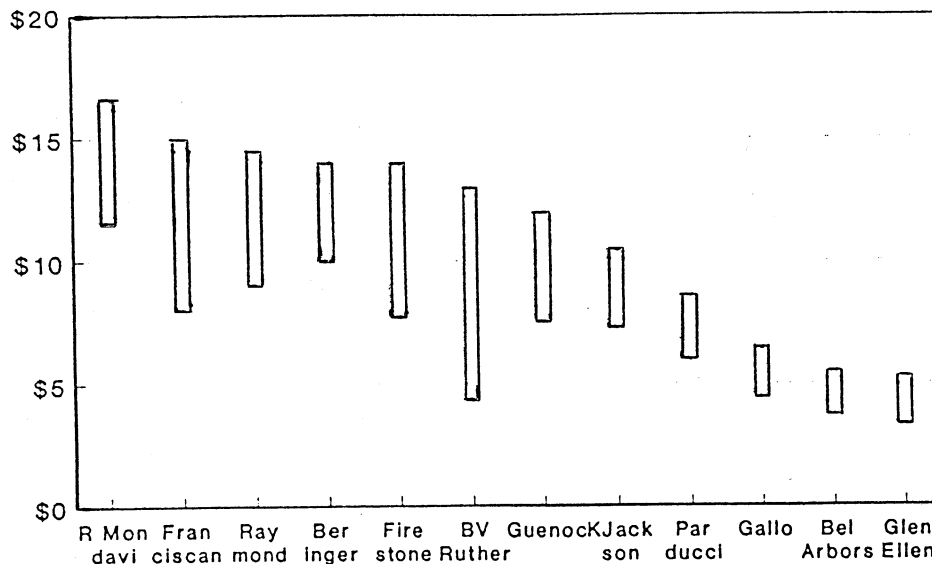
However, imported wines are not a uniquely separate category, but are as much part of the overall market as any other locally produced wine. It is important therefore, to compare these trends with the trends for American wines. The performance of American-made table wines has lately become more consistent with the performance of imported table wines. During 1990, American-made wines of traditional style - almost inevitably dry - were the strongest market segment. Previously, American-made specialities were showing the highest growth, due largely to the success of coolers.

**5. Price**

The price of a wine is usually a function of its quality and determined by factors such as the type, (red or white), age, origin, brand, etc. Wines therefore do not compete on price alone. Because of consumer preferences, brand recognition, quality, etc., a consumer would buy a certain wine notwithstanding a higher price. This does not imply that price is unimportant. Price is a

function of quality, but because quality depends on individual tastes and consumer perceptions, it cannot be accurately and objectively determined by scientific methods. Wine should nonetheless be price-competitive within the quality category it is perceived to be. Many US consumers wine preferences have in recent years shifted from a average housewine to a premium wine. A trend that will likely suit SA exports. The average value per litre figure for imported wine has risen from \$2,49 per litre to \$3,62 per litre over the period 1986-1990 (Wine Institute, 1990).

The advent of new technologies, in particular supermarket scanners, revolutionized the ability of researchers to understand different markets. Hambrecht & Quist (1991) used data acquired from Infoscan, a database of supermarket scanner-generated information, to compile some invaluable information on wine marketing, specifically as it relates to prices.



**Figure 3: Price spreads - Cabernet Sauvignon**  
Source: Innovative Wine Marketing, 1991

These data could be valuable to the SA exporter not only when initially analysing the market, but also in future when researching the performance of specific products. Scanner data is an important strategic and tactical tool. US wineries, suppliers and retailers use these data to measure promotional and marketing efficiency. Scanner data cover supermarkets only. Depending on varietal and price point, this data cover approximately 20 - 70 percent of the market in states where wine is sold through supermarkets. For the US as a whole, scanners cover one third of all wine sold. Table 5 displays volume and pricing trends for a number of important wine industry categories (Infoscan, 1991).

With \$171 million in annual retail supermarket sales, White Zinfandel is the dominant varietal wine. Furthermore, its growth rate remains impressive: 9 percent in value and 17 percent in volume. Chardonnay is second with \$118 million in supermarket sales, but continues to grow at more than 20 percent per year. If current White Zinfandel and Chardonnay growth rates continue, Chardonnay will be more important than White Zinfandel by the end of 1993.

Other growing varietals and/or wine types include Sauvignon Blanc, White Grenache, Merlot, non-alcohol wines, and Gewurztraminer. Merlot stands out for its strong growth rate in retail sales (41%) and its high price (\$5,60 per bottle). Interestingly, non-alcohol wine is now a larger category in dollar sales than Gewurztraminer or Pinot Noir. Sparkling and generic wines continue to decline from large revenue bases.

An important advantage of scanner data is the ability to monitor actual selling prices. A review of sales by varietal and price shows clearly that the industry standard

definitions of price categories, e.g. premium \$3-7 per bottle, are too broad and should be differentiated by varietal for detailed, marketing and/or strategic analyses. Figure 2 shows case sales by price level for the three largest varietal wine segments. The graphs in Figure 2 reveal that there are distinct price boundaries among clusters of wine sold. Clearly, the market is indicating that these boundaries are the true price points for any given varietal. In White Zinfandel, there appears to be three major price points, in Chardonnay, eight, and in Cabernet, six.

The existence of distinct price points has been confirmed, by other sources e.g. Innovative Wine Marketing (1991). This type of information is even more valuable if it indicates sales volumes per price point, brand names, etc. Table 5 provides an example of the information available. The same data can also be presented in a different manner, enabling the producer/exporter to more easily compare the retail price of a product with those of competitors in a selected target market. Figure 3 depicts this information.

Another important question remains for the potential exporter who needs to select a price category and a suitable product: which price category is at present showing the most growth? According to market research done by Wine Investor (1991), mid-range (or premium) wines performed the best in 1990, with a gain of 12,93 percent. Over 5 years the growth was 61,36 percent. Second were high-end or super premium wines with a gain of 12,40 percent and a five-year growth of 59,85 percent. At the low end, shipments declined by 6,77 percent in 1990 and 17,08 percent over the last five years.

Table 5: US sales of wine in supermarkets (52 weeks ending 2/10/91)

	Retail sales		9-litre case sales		Average retail price	
	\$1000	Growth (%)	1000 units	Growth (%)	Per 750 ml	Growth (%)
White Zinfandel	171,438	9	4,050	17	3,53	(7)
Chardonnay	117,924	25	1,757	23	5,59	1
Cabernet Sauvignon	74,108	11	1,197	6	5,16	5
Sauvignon Blanc	49,733	14	970	11	4,27	5
White Grenache	42,662	12	1,656	9	2,15	2
Chenin Blanc	30,122	(5)	1,088	(4)	2,31	(1)
Johannisberg Riesling	27,429	(10)	582	(15)	3,93	6
French Colombard	17,678	(3)	799	(4)	1,84	1
Zinfandel	10,214	(5)	197	(7)	4,32	2
Merlot	10,087	41	150	37	5,62	3
Gewurztraminer	7,400	13	157	7	3,93	6
Pinot Noir	6,187	(2)	94	(9)	5,50	8
All other	52,941	(17)	1,121	(22)	3,94	6
Total Varietal Wine	629,544	8	14,030	6	3,74	2
Non-varietal wine	539,248	(9)	23,787	(14)	1,89	5
Sparkling Wine	203,059	(4)	3,311	(7)	5,11	3
Non-alcohol wine	8,849	16	193	8	3,81	8

\* Growth: Percent change compared with prior 52-week period  
 Source: Infoscan, 1991

Table 6: Price points for Chardonnay per 750 ml bottle

Price Point	% Category Sales	Leading Brand in Price Point
<\$4,00	19	Sebastiani
\$4,00-6,00	37	Glen Ellen
\$6,00-7,50	15	Fetzer
\$7,50-9,00	7	Barton & Guestier
\$9,00-11,00	15	Kendall-Jackson
\$11,00-13,00	4	Beringer
\$13,00-15,00	2	R. Mondavi
>\$15,00	1	Barton & Guestier
	100	

Source: Infoscan, 1991



**Table 7: Percentage increase in volume by type of merchandising, top five chardonnay brands US total 52 weeks ended 3/10/91**

	Price Reduction only	Feature only*	Display only*	Feature and display*
Glen Ellen	48	125	102	201
Sebastiani Country	26	98	63	186
Kendall-Jackson	42	81	132	221
Fetzer	40	99	81	130
Napa Ridge	57	122	156	260
Average	43	105	107	200

\* May include price reduction  
 Source: Infoscan, 1991

**Table 8: Advertising expenditure per 9 litre case, 1984 - 1989**

Year	Per case
1989	0,50
1988	0,75
1987	0,94
1986	0,95
1985	0,85
1984	0,76

Source: Jobson, 1990

In additional research done by Gillette (undated) an attempt was made to determine the volume of wine purchased within a price category. The following question was posed to a sample of consumers: What is the most typical price range of a bottle of wine you purchase for the household? The consumers responded as follows:

None	43,6%
\$2 - \$5,95	15,9%
\$5 - \$9,95	34,5%
\$10 - \$14,95	5,1%
\$15 and more	0,9%

By far the largest category, apart from those who never purchase wine for consumption at home, is the group (34,5 percent) that spends \$5 - \$9,95 per bottle. This of course, is the terrain of the varietals and other medium-priced wines that are enjoying growth in sales. The above information supports at least one point. SA's potential wine exporters should carefully analyse the US market to decide where their product would fit best. If an exporter has a range of products, a product that falls within a price category that shows comparatively high growth should be chosen.

## 6. Promotion

For brand owners and marketers, a further advantage of scanner data is monitoring the effectiveness of promotions and other merchandising efforts on a regional or even store level. These are critical tasks in today's environment. Almost 50 percent of all varietal wine in

supermarkets (by volume) is sold with some form of merchandising: either price reduction alone or in combination with a store advertisement and/or display. Scanner data can determine the base volume of any given brand without promotion and compare it with volume during promotions (Hambrecht & Quist, 1988).

Table 7 shows the effects of different types of promotions on the top five brands of Chardonnay. Producers and retailers have not yet taken full advantage of this "hierarchy" of promotions. Of the 49 percent of all varietal wine sold with some form of merchandising promotion, only 10 percent uses the most powerful promotion of feature ad plus display, while 38 percent of all promotion involves price reduction only, the least efficient method. Jobson (1990) estimates the advertising expenditure for all wines since 1984 to be as indicated in Table 8. As illustrated in the beginning of this article the US import market for wines has generally decreased substantially in the last six years. However, this need not concern SA exporters as long as they analyse the US market with its many sub-markets correctly. First, all SA's exports represented only 2,1 percent of US imports in 1989 of which may be 10 percent will be targeted towards the US - an insignificant percentage when viewing the total market. Furthermore, even in these difficult times of declining market share there are success stories, e.g. in Table 6 it is noticeable that an imported wine, Barton & Guestier, is the category leader in two price points.

Table 9: Cost analyses of exporting table wine to US

	White wine	Red wine
One 20 ft container (1000 cases or 9000 litres - 2400 gallon)		
SA winery production cost per 1 000 cases	54000	63000
Profit margin (10 percent)	6000	7 000
	60 000	70 000
Less SA excise rebate on 90 percent	1080	1260
Adjusted figure	58 920	68 740
Transport: inland to Cape Town	485	485
Fees Cape Town harbour	869	958
F.o.b. Cape Town	60274	70183
Exchange rate \$1,00 = R2,75	21918	25521
Sea freight (via Europe)	2000	2 000
Insurance (0,4 percent of 125 percent of f.o.b.)	110	128
Fees US harbour	189	189
Inland freight (approximately \$1 per mile)	485	485
Customs, brokers and bond fees	300	300
Import duties (9,9 cents per litre)	890	890
Taxes: Excise (\$1,07 per gallon)	2568	2568
Landed cost at US destination	28460	32081
- per case	28,46	32,08
- per bottle	2,37	2,67
Importer/wholesaler mark-up (33,3 percent)	3,16	3,56
Retailer mark-up (approximately 100 percent)	89,6	96,3
Consumer price	5,99	6,99
Profit for SA winery per container		
Profit margin (10 percent)	6000	7000
Excise rebate	1080	1260
General export incentive (18 percent)	10849	12633
Total	17 929	20 893

Source: Confidential, 1991

Wines from Chile have also made a big impact on the US market over the last few years. Most brands offer high quality at inexpensive prices. In 1990 US imports from Chile increased by 57,1 percent from the year before (Impact, 1991). One key to their success is attractive prices. Some brands retail at about \$4 per bottle. They are noted for quality at price points the rest of the world has abandoned.

Another South American entrant, the Brazilian Marcus James line, has also made considerable headway in the past few years. Imports rose by 18,2 percent in 1991 to 325 000 9 litre cases. Much of the appeal of the Marcus James wines is price. The Carbernet Sauvignon, Chardonnay and White Zinfandel retail for about \$4,00 to

\$4,50 per bottle (Impact, 1992). Australia also showed promising growth with shipments to the US, increasing by 15,8 percent; while Hungarian shipments rose by 16 percent.

## 7. Conclusion

The information age has reached the US wine industry. Potential SA wine exporters should make use of available information to analyse the potential market carefully. This is particularly true of the type of product wine producers market. The wine market can be subdivided into a large number of different target markets. The exporter has to carefully choose a target market and identify a product that is suitable for this market.

Since the advent of sanctions, SA producers' main tactic has been to shift from branded products to bulk shipments. With the end of sanctions, organisations such as KWV, are now expected to follow a more high-profile, branded export strategy. It intends to launch new product ranges, and packaging designed to cater for current consumer preferences - which have changed significantly since sanctions were implemented - with the increased trend towards varietal wines and more up-market product and packaging.

Although SA produces some quality varietals, it is doubtful whether production is sufficient to fuel a high-volume export campaign. Only a small number of wineries in SA are capable of exporting in significant volumes, although many are able to export small quantities, according to Richard Coleshaw, export director of Stellenbosch Farmers Winery (SFW). Scannell, director for international marketing for Distillers Corporation, said, the production of wine of the quality which can succeed on the international market is presently limited (Impact, 1991). These views are further supported by Platter (1991:4) an independent wine analyst. SA producers have moved to remedy the above-mentioned problem by undertaking a rigorous replanting effort. Less popular varieties such as cinsaut, hanepoot and palomino have been replaced with the more internationally popular varieties. The situation should improve as new plantings come into production.

In the short term, however, any SA export drive is likely to be hampered by an insufficient supply of popular varietal lines. In the long term, SA's export potential is much better. With ideal growing conditions and a highly advanced viticultural infrastructure, it may just be a matter of time before a break-through is achieved. Van Staden (1992), KWV Marketing Manager - US, is optimistic about the potential of the US market. KWV has already completed their market analysis based on aspects discussed before. Eight states are targeted for distribution namely New York, Massachusetts, Florida, Texas, Illinois, California, Connecticut and New Jersey. The following wines, with their price categories, have been identified for export to the US:

Estate wines	\$12,99 - \$17,99
Cathedral Cellar	\$12,99
KWV and Springbok	\$ 6,99
Cape Country	\$ 4,99

With the exception of the KWV brand, the brands will be made up by the varietals Carbernet Sauvignon, Chardonnay, Pinotage and Sauvignon Blanc. The KWV brand will consist of the varietal Chenin Blanc and the blended wine, Roodeberg, and will mainly be targeted towards ex-South Africans, their friends and other consumers who have been exposed to SA wines before. Van Staden (1992) confirmed that price points are very important when identifying the product and its price category.

KWV intends to ship approximately 50 000 nine litre cases in the first year, followed by 75 000 and 120 000 the next two years respectively. Chardonnay is the only varietal that at present is experiencing a shortage but expanded production will make this up in 1993.

According to Van Staden (1992) mark-ups in the industry are as follows: If a US distributor receives the wine he

adds 25-30 percent for his services. From there it moves to the retailer who has a mark-up of approximately 25-35 percent. These figures are supported by Buchner (1992) President of TCI, a wine-importing company, who estimates the mark-up as follows:

Importer	25 percent
Distributor	25 percent
State	20 percent
Wine shop	40 percent

Table 9 lists in detail the various costs applicable when exporting a container of wine to the US. The information (as adjusted) was compiled for a SA winery which intends to export to the US. The retail mark-up in Table 9 of approximately 100 percent is considered exceptionally high but serves only as an example of how mark-up costs/profit margins can be adjusted once the price point and actual costs have been identified for a particular type of wine.

Van Staden (1992) reports that all promotion costs are usually for the account of the exporter. Sometimes the distributor might pay half the costs when, for example, a wine-tasting presentation is given. The retailer could also approach the exporter with an offer to advertise his wine, in which case the costs are shared. Costs for items such as posters, brochures, special stands, samples, etc. are paid by the exporter. An approximate figure of 10 percent on the f.o.b. price is budgeted for promotional expenses. However, when releasing a new product in the market, as will be the case for SA after its 5 year absence, the promotional costs could be as high as 30 percent in the first year.

To conclude, it appears that the US market has significant potential for the SA exporter. Based on information obtained from wine specialists and cost analyses done, SA wines at present offer good value for money and will be competitive within their price category. Adequate supplies of the popular varietals might present a problem in the short term but only if too wide a target market is serviced. Selecting the target market and price category to match the product and brand is of the utmost importance and could make the difference between failure or success.

Notes

1. This article was submitted for publication in August 1992.
2. The author is currently employed by the Department of Agriculture.

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