

INCREASING THE EXPORT OF SOUTH AFRICAN WINES: AN ANALYSIS OF CONSUMER PERCEPTION

Jillian K. Ehrman¹ & Paul D. Berger²

¹Research Scholar, Chadwick Martin Bailey, Boston, Massachusetts, United States America

²Professor, Bentley University, Waltham, Massachusetts, United States America

ABSTRACT

This paper examines the export of wines from South Africa. A history of world wine-production is first provided, followed by the history of wine-production specifically in South Africa. Wine consumption is also considered specifically for the United Kingdom (South Africa's larger wine importer) and the United States (biggest market potential for expansion.) Suggestions for increased exports are the key focus of the paper. Limitations of the study and conclusions are also provided.

KEYWORDS: *Zuid-Afrika , United States, Argentina, Australia, South Africa, and Chile*

Article History

Received: 20 Dec 2018 | Revised: 28 Dec 2018 | Accepted: 29 Dec 2018

INTRODUCTION

The South African wine industry exports the vast majority of its wine to five major countries: Britain, Germany, Russian, France, and Sweden (The Shape of Bulk Wine for South Africa, 2014). The purpose of this research is to evaluate the wine industry in South Africa and determine areas of improvement for exports.

Of particular interest is how South Africa can increase its exports to the United States. The research was conducted to evaluate the current export status of South African wines and determine consumer perception of South African wines, to better understand how to market the wines. This information can be used to create a strategy for South Africa to increase the amount of wine that it exports.

BACKGROUND

History of the Wine Industry

Evidence of growing grapes for wine dates back to 6000 BC in Persia. About 5000 years later, the inhabitants of Sicily, Italy and most countries in North Africa began planting vineyards. Arabia and the South of France and began planting vineyards in about 500 BC, and the people in northern Indian, China, the Balkan States, and northern Europe also began cultivating wine around 500 BC. The spread of vineyards halted for the next 1000 years or so, during Europe's Dark Ages, but it picked back up again in 1530 when vineyards began to spread to Mexico and Japan. Thirty years later, Argentina and Peru followed suit. The first vineyards were planted in Cape Town, South Africa, in 1655 and California in 1697. In 1813, Australia and New Zealand joined the wine industry. Generally speaking, the spread of the industry followed the spread of civilization. (Wines of South Africa, 2018).

History of Wine in South Africa

After the first vineyard was planted in Cape Town in 1655, the first wine was made in 1659 by Jan van Riebeeck. By the 18th century, however, there was much resistance from European and Far East export markets because the quality of Cape Town wines was not as good as what was desired. This was because Cape Town, and other South African regions, had difficulty acquiring the oak vats that were necessary to age the wine properly. They also struggled to adapt to the local conditions the winemaking techniques that they were taught. There seemed to be a bright future at the beginning of the 1800s when the British occupied Cape Town and created a large new export market for the wines grown there. However, Britain resolved their differences with France and this led to the diminishing of the recently gained export market. Late in the 1800s, the wine industry was in chaos because new plantings caused overproduction that would create 25 years of hardship. In 1918, the Ko-operative Wijnbouwers Vereniging van Zuid-Afrika Beperkt was founded by Charles Kohler, who helped to bring stability to the industry and lead it to grow and prosper (Wines of South Africa, 2018).

South Africa Wine Industry Today

Cape Town has a Mediterranean climate and mountain slopes and valleys, which make it the ideal habitat for wine grapes. In 2017, 3,029 farmers cultivated 94,545 hectares of land; 300,000 people were employed through the wine-making process. The annual harvest in 2016 was 1,405,401 tons, which is 1,089 million liters, and in 2017 the annual harvest was 1,437,259 tons, which is 1,118 million liters. In both years, 82% of the harvest was used for drinking wine (Wines of South Africa, 2018). This increase in the annual harvest indicates that demand is growing and that the South African economy is able to support this growth. 55.2% of grapes planted are used for white varieties of wine, and 44.8% are for red varieties of wine. Of the white variety, 18.6% is used for *Chenin blanc*. *Cabernet Sauvignon* makes up the largest portion of the red variety at 11%, then *Shiraz* at 10.3%, *Merlot* at 5.8%, and *Pinotage* at 7.4%; the latter is indigenous to South Africa. In 2017, R36.1 billion Gross Domestic Product (GDP) was contributed by the wine industry to the regional economy. This is about 2.55 billion \$U.S. The growth in contribution to the GDP has been at least 10% per year since 2003, indicating that this industry is continuing to grow quickly and be very helpful to the South African economy (Wines of South Africa, 2018).

OVERVIEW OF SOUTH AFRICA EXPORTS

In South Africa, all wines for export must be granted an export license. Samples of each wine that are to be exported have to be sent to the Wine and Spirit Board at Nietvoorbij, Stellenbosch. There, each wine undergoes detailed testing and chemical analysis before the license is granted. (Wines of South Africa, 2018). This shows that there are strict quality controls in place to ensure that only the best wine is being exported. In 2017, exports of natural packaged wine reached 170.4 million liters, which was an increase of 3.4% from the previous year. Also notable was that red wine exports increased by 2.7% between 2016 and 2017. Total exports of both packaged and bulk wine were 448.5 million liters in 2017. Overall, South Africa is still a small player, globally, so there is huge growth potential (Van Zyl, 2004).

Below is a bar chart showing the quantity of wine exported in the last six years. This includes still, fortified, and sparkling wine.

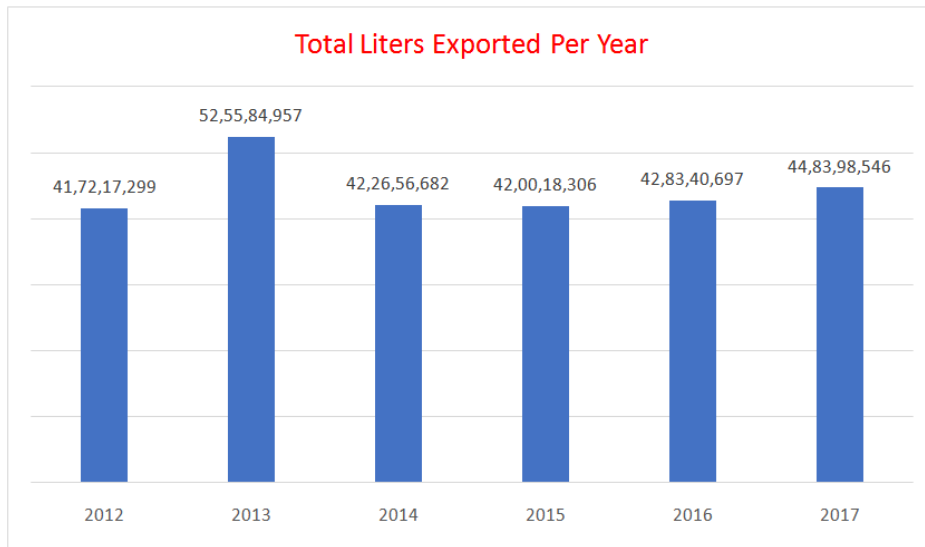


Figure 1: (South African Wine Industry Statistics, 2017)

This chart shows that there was a large decrease in exports from 2013 to 2014, and there has been slow growth since that large decrease. This confirms that there is an opportunity for growth and that it is possible to increase wine exports.

Below is a chart that shows the quantity of each type of wine that was exported from South Africa in 2017. This helps to visualize which wines are being exported the most, perhaps indicating where opportunities lie.

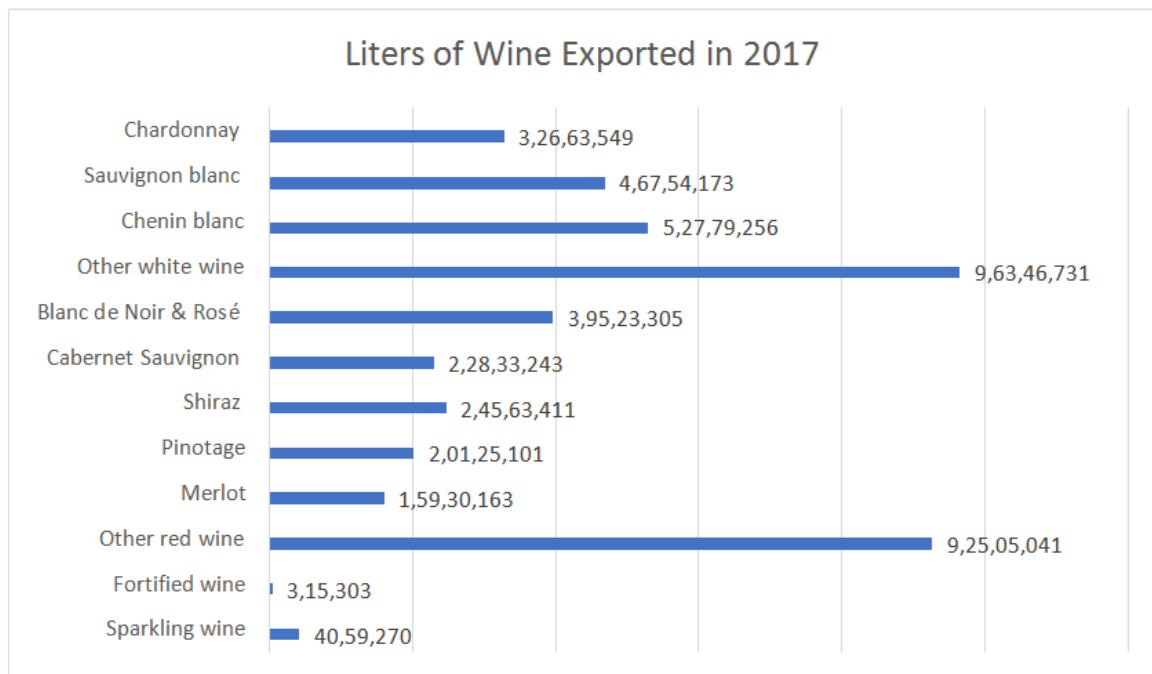


Figure 2: (South African Wine Industry Statistics, 2017)

This chart shows that the most popular white wine exported is Chenin Blanc and the most popular red wine exported is Shiraz. South Africa should focus their efforts on continuing to grow the export market for these popular wines and continue to grow the market for other wines, such as Pinotage, which, as noted earlier, is indigenous to South Africa.

GLOBAL WINE INDUSTRY TRENDS

As of 2016, Italy has to lead the production of wine worldwide at 19.1% of the world's production. Next is France at 16.3% and third is Spain 14.7%. South Africa ranks seventh at 3.9% (Wines of South Africa, 2018). Global trade of wine has increased over the last 20 years, due to the shift in wine consumption patterns. Until the 1990s, the production and consumption of wine were relatively localized, and correspondingly, the wine export market was not highly saturated as it is today. The four largest European producers, France, Italy, Spain, and Germany, accounted for about 55% of global production in 2004. These countries are classified as the *Old World countries* for wine production. The five largest and most established *New World countries* are the United States, Argentina, Australia, South Africa, and Chile. These five countries accounted for 23% of global production. These New World countries have larger opportunities to grow because they are perceived as new and fresh. They are also able to create a brand image that is appealing to younger wine drinkers, as opposed to the Old World countries that have an established brand image that has been defined by many years of winemaking and is difficult to change (Hussain et al., 2008).

Many countries globally are facing similar issues with consumer preference. Social campaigns that are against alcoholism and drunk driving have increased, which has caused a decline in per-capita wine consumption. As the Millennial generation continues to grow older, it is increasingly becoming the generation that consumes the most alcohol. These consumers feel intimidated by “wine geek speak” on the back of wine labels because they are not sure how to interpret and understand what the different notes are truly saying. Also, they have trouble remembering which wines they bought previously and liked. Inexperienced wine drinkers feel confused about the many different types of wines, especially when they are from a foreign country. (Hussain et al., 2008).

METHODOLOGY

The research for this paper was conducted using the EBSCO database and the leveraging of articles that reviewed consumer perception of wine in countries in which South Africa wineries export their wine. It was also used to understand consumer behavior in the markets that South Africa exports to the most, such as the United Kingdom. The *Wines of South Africa* website was used to gain a deeper understanding of the history of wine in South Africa, the types of wines that are produced, and the quantity that is exported each year. Through the research, there were recognized gaps that indicated that little research has been done on the export strategy of wines from South Africa. This gap further supports the notion that little knowledge exists about South African wines.

RECOMMENDATIONS

Although consumers have their concerns about trying new wines, their perceptions are changing, and they do not believe wine drinking is just for connoisseurs (Gill, 2016). To make wine more approachable for new wine drinkers, South African wine producers need to design and label wine in ways that consumers can better understand (Hussain et al., 2018). This would involve creating descriptions that consumers can relate to, and this would be done through consumer research to determine what consumers would like to see and would be able to understand. Another design feature that was noted that would make the wine more approachable would be to use twist top closures instead of corks, which a large majority of South African wineries already do (Hussain et al., 2008). South African wineries should better understand consumer behavior patterns because these are a major driving force in the wine industry. In addition to this, they should focus their efforts on continuing to export to their largest consumer, the United Kingdom, and increase their penetration of the United

States market because there is a large opportunity for growth there.

WINE IN THE UNITED KINGDOM

Sixty percent of United Kingdom adults choose wine over other alcoholic beverages. This provides evidence that South Africa should continue its efforts to export wine to the U.K. (Gill, 2016). The market exists; South African wine producers just have to strategically determine how to better market themselves in the U.K. Research suggests that retailers of wine should immerse themselves in a world of wine to better understand what they are selling (Newman, 2017). South Africa should help these retailers to do this by leading wine-tastings at local shops to educate both the retailers and the consumers.

WINE IN THE UNITED STATES

In the United States, Millennials need to be told more directly what wine is like and how to drink it, compared to the knowledge directly needed to be imparted to those who are in the 30s and older. However, this is currently not happening in a majority of retailer stores. Therefore, a majority of Millennials are discouraged from exploring wines and the differentiating among types (Catchpole, 2016). This (Millennial) age group is also more averse to trying new wines because the decision on which wine to purchase is a more complex experience compared to many other consumer products. This is a result of their use of a variety of information sources and prior knowledge and usage experience when making a decision to purchase a product; they lack the information they need and have limited experience with wines to help them be able to make a decision they feel secure with. (Heyns et al, 2014).

South African wineries should conduct education campaigns in the United States that teach Millennials about South African wines, such as how they taste in relation to what the wines provide, such as aromas and tastes of the fruits and nuts that the wine contains. This can be done through social- media advertisements by targeting those who are alcohol drinkers and partake in social activities that would involve drinking wine. By teaching consumers about the wine that South Africa has to offer, they will be able to increase demand and increase South African exports to the United States.

Lack of knowledge is not the only obstacle that South Africa will face while trying to increase exports to the United States. Americans value the country of origin and the brand when deciding which wine to purchase. This is related to their lack of information, because they are unaware that *country is not the most important factor when choosing a wine*, and they assume that wine from Old World countries have to be better because these countries have been producing wine for longer. However, this is not necessarily the case; Americans are simply unaware of how to evaluate wine. When choosing a bottle of wine, the region, vintage, cultivator, and wine style should influence choice. (Heyns et al., 2014). South African wineries need to educate American consumers on how their region of wine compares to that of "Old World countries."

LIMITATIONS

A large limitation of this research is that there is no information about the actual current export strategy for South African wineries. There is also limited information on consumer perception of the South African wine industry, which indicates that not many are even aware of the quality of wine that is produced there. The country is also experiencing a great deal of political and social change, so it is difficult to gauge how this will impact its export strategy. To overcome these limitations, a general understanding of how consumers perceive wine, in general, should be used to determine how South African wineries can improve their export strategy.

CONCLUSIONS

In conclusion, South Africa has a large opportunity to increase its export market. They need to invest in educating the United Kingdom and United States markets on how to evaluate wines. This education will help to increase visibility in these markets and will help consumers understand the value of South African wines. Britain is currently the largest export market for South Africa, so it is imperative that the wineries continue to build relationships with retailers there, to help them educate consumers. Also, there is a great deal of opportunity for South African wine to expand into the United States market; consumers currently rely on the region and brand name to evaluate wines, but South African wineries can step in to educate the market and be a leader in wine education.

REFERENCES

1. Catchpole, A. (2016). *Boosting Wine Sales*. *Harpers Wine & Spirit*, 8-9.
2. Gill, J. (2016). *Keep on moving*. *Food & Drink Technology*, 16(2), 42-43.
3. Heyns, E., Herbst, F., & Bruwer, J. (2014). *The relevance and acceptance of green wines in South Africa: some marketing insights*. *Journal Of Wine Research*, 25(4), 243-264. doi:10.1080/09571264.2014.961597
4. Hussain, M., Cholette, S., & Castaldi, R. (2008). *An Analysis of Globalization Forces in the Wine Industry: Implications and Recommendations for Wineries*. *Journal Of Global Marketing*, 21(1), 33-47. doi:10.1300/J042v21n01-04
5. Newman, J. H. (2017). *An Endless Education*. *Beverage Dynamics*, 129(2), 10.
6. *South African Wine Industry Statistics (2017)*. In *South Africa Wine Industry*. https://www.wosa.co.za/wosadocs/62018/Book_2017_statistics_year_english_final.pdf
7. *The Shape of Bulk Wine for South Africa*. (2014). *Harpers Wine & Spirit*, (120), 35.
8. *Wines of South Africa (2018)*. <https://www.wosa.co.za/home/>
9. Van Zyl, J. (2004). *Exports keep growing*. *Finance Week*, 70.