

## L'avenir du vrac sera-t-il numérique?

Translated from French

### Will the future of bulk be digital?

Friday, November 18, 2016 by Sharon Nagel

VINEX Digital has invaded our lives to such an extent that some forms of commerce now seem anachronistic. As World Bulk Wine Exhibition opens in Amsterdam on November 21 and 22, analyses internet opportunities for bulk wines.



#### A facilitator of exchanges

If the bulk is vilified by a number of buyers, it is mainly for its lack of transparency, accused of being at the origin of levelling prices. Whether in South Africa or in Spain or elsewhere, producers, in particular, contribute to the lack of price visibility in this now globalized market. Opposite, the Buyers also criticize the sector for lack of information on the state of inventory, a key element of the market. It is therefore an area where new Information could play a pivotal role, in terms of transparency, reinforced paradoxically by the anonymity of the buyers and sellers. With a quarter of



a century of experience in the international wine trade, particularly in bulk, Denys Hornabrook positions VINEX well, where he is the director, as a facilitator of exchanges and not as a successor to brokers as such, saying... *"VINEX brings significant technological advances to the industry to improve the links between buyers and sellers. It promotes real-time trading, provides operators with objective information on the market - in particular on prices and stocks - and thus allows the interlocutors to make informed decisions. Before, buyers had to get in touch with brokers and producers, each with their own interpretation of market developments. We are not trying to change the fundamental way in which bulk supplies are made, but rather to offer another type of intermediary"*.

#### Important investments to make profitable

An alternative that has already attracted members from 32 countries for nearly 500 referrals and a total volume traded of 4 million liters since last June. "The volume traded increases monthly and three weeks ago we recorded the first transaction in a volume of one million liters," said former BRL Hardy and Kingston Estate Wines in Australia. Exchanges range from 10,000 liters to 1 million now,

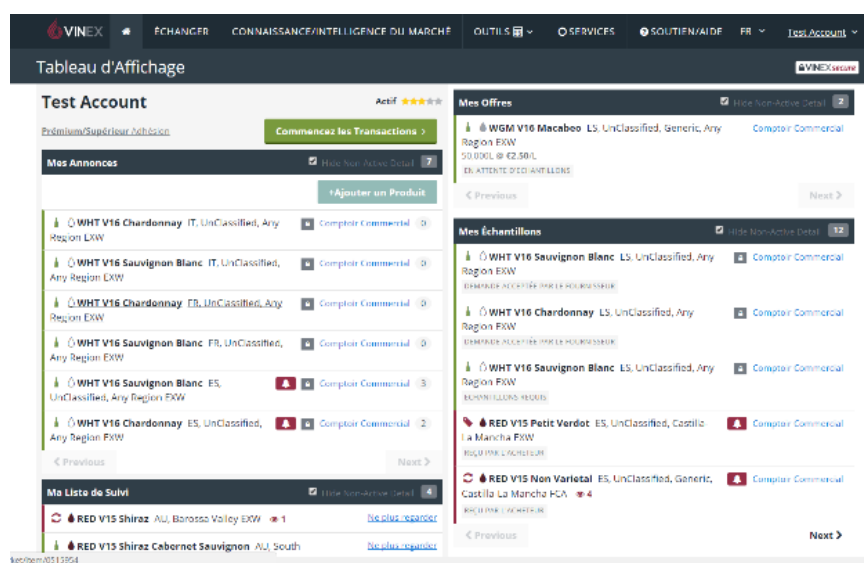
with an average volume of 220,000 liters. The objective, is to reach a few hundreds of millions of liters per year. It is the price to pay for the major investments made, not disclosed, and to satisfy shareholders, from the world of new technologies and not wine. *"It took two years to develop the platform and if the shareholders represent the technology sector, we have relied on 16 specialist confidants / consultants in several countries and on our regional oenologists. But we do not want to be attached to a structure that could pull us in one way or another."* In addition to the technologies and investments required, the integration time of the functionalities by the users is relatively long, the learning phase for about 12 weeks on average. "We know that younger generations tend to embrace new technologies faster than others. When we introduce the platform to under-50s, they typically downloaded the mobile app before the end of the presentation and understood its benefits and features. "

### Bulk premiums

The arrival of new technologies in this sector clearly reflects the nature of products, trade and the volume of trade. "We know that 3.7 billion liters of wine is exported in bulk. The OIV estimates that 38% of the wines in the world are marketed in bulk, a total volume close to 10 billion liters. That is to say the stake of a large implantation in this market. Moreover, far from being a threat to the bulk market, the phenomenon of premiumisation also concerns it. "The acceptance of bulk in the premium categories has never been more important," says Denys Hornabrook. "We know that there are bulk shipments of wines from selections Parcels with denomination of origin which are bottled in the United Kingdom and marketed at £10. Nobody promotes it. Who would have thought that parcels of Barossa Shiraz or Coonawarra Cabernet and would arrive in bulk to be bottled in Britain? We are seeing the emergence of bulk exchanges of confidential volumes of high quality wines with an ultra-premium packaging ". Increased demand from distributors However, it goes without saying that the bulk of bulk shipments involves entry-level or high-volume wines and that this trade is now global.

*"Today we are part of a global village in which the owners of major brands are looking for a style of wine that is universal and qualitative, giving less importance to its geographical origins". Pressure on prices is at its height in these segments and profit margins become the Grail of any retailer. "Even if we exclude brands such as Aldi, which only sell their own brands, the share of private label brands has now surpassed 30% and is approaching 40% at traditional retailers. One of the only ways they can keep costs down and maintain their margins is to get bulk and bottling as close to the point of sale as possible."*

The emergence of "virtual brands", whose owners have neither vineyards nor vinification facilities, will only accentuate this trend.



Local wines represent only a small part of the market unless producers put a stop to the development of bulk to encourage bottled shipments, and thus retain a greater share of the value added. South Africa and New Zealand have already sounded the alarm about the dangers of bulk for their image and the profitability of their sector. But for Denys Hornabrook, bulk

advance is inevitable.

*"You have to see who is spreading this message. These are the promotion organizations where most of the members are small and medium-sized businesses selling local wines. These companies pay them a contribution to perpetuate their history. However, the wine market forms a pyramid, with at the top a small share of 37% for wines of terroir, high expression. The reality of the market is quite different".*

#### China strengthens bottling capacity

The arrival of China in the bulk world risks exacerbating this trend more. By 2014, China already imported 150 million liters of bulk wine, accounting for 27% of its total imports. As a result of free trade agreements with countries such as Australia, Chile and New Zealand, whose bulk imports enjoy zero tariffs, this share will certainly increase. "Distributor brands and virtual brands are growing strongly in China," says VINEX's director. "We have seen significant investments, carried out with the support of the State, in bottling facilities. So much so that one gets the impression that there is more brand new equipment in China than in any other country. Nowadays, this equipment is sitting idle but believe me, the Chinese are strengthening their bottling capacity and we will witness an acceleration of this phenomenon. This is borne out by the fact that, on average, bulk represents 55% of imports in European countries and in America, while in China it does not exceed 27%. It could easily double those volumes to 50% in the next 5 or 10 years. "

#### A period of volatility

The two major challenges that are currently emerging - low world wine availability and exchange rate fluctuations - could also be favourable to trade through a digital platform such as VINEX, which offers a market visibility." The fluctuation of exchange rates following the Brexit and, as time may tell us, in the election of Donald Trump, has already resulted in a loss of about 25% in currency value, in a shortening market. From the point of view of prices and availability, we are entering a period which, I think, will be volatile."

#### VINSenVRAC.com

In France, the platform Vinsenvrac.com, whose creation precedes that of VINEX, proposes a digital relationship between professionals in the sector. In a globalized market where the place of the French offer is increasingly challenged, its objective is to create a showcase for French bulk wines and to give them access to international markets. Added to this are VINEX's goals of creating a secure business environment and improving market transparency through online information. *"Digital is a solution for the future that broadens its commercial spectrum and moves faster. It does not replace the traditional relationship between operators and the traditional process of sending samples, for example, but it puts operators in touch with new contacts and represents an alternative to diversify its sourcing and customer base,"* says Laurent Causin, market manager at *Vinsenvrac.com*. " In addition, compared to the number of new contacts generated, the price is interesting". More than 1,000,000 liters per year is marketed via the French platform and the objective is to extend it internationally to reflect the realities of the world market.