The consumption of wines in Argentina[1]

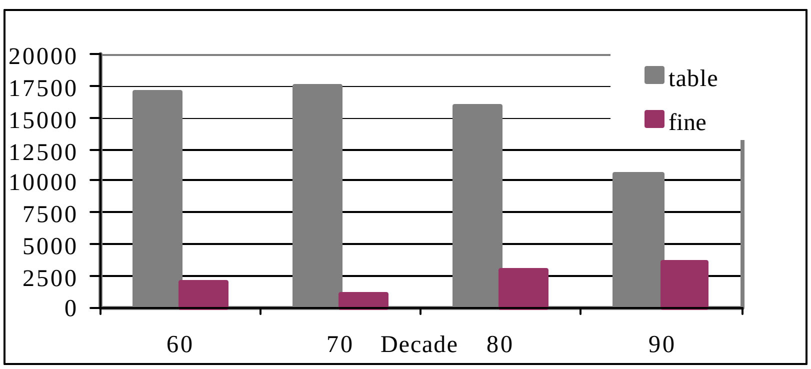
Abstract

The total volume of wine commercialized in the internal market in Argentina showed an important fall in the last two decades, related to a decrease in the table wine consumption. However, the demand and participation of fine wines has been increased. The most requested are low-priced red varietals fine wines by middle aged consumers. Drink substitutes, such as beer, soft drinks, juices and alcoholic appetizers had also an increment in the drinks market share. This recent changes in consumption has pushed wine companies to improve competitiveness trough product and services differentiation and promotion, paying special attention to the consumer's preferences.

1. Evolution of the internal demand

The total volume of wine commercialized in the internal market showed an important decrease in the last two decades, falling from 21 million of hectoliters in the year 1980, to almost 13 millions in 1999 (Figure Nº 1). These data reflects a drop in the consumption of the country of 8 million hectoliters in that period.

Figure Nº 1. Consumption of wine (thousands of hectoliters).



Source: Mendoza Center of Wine Cellars, 2000.

In 1999 the total consumption per capita of wine was of 38,7 liters, while in 1970 it had overcome up to 90 liters (Figure Nº2). This important fall is a consequence of the decrease in the consumption of table wines, which correspond most of the consumed total, and not in the sale of fine wines, seeing that they have been increased, as it is shown in table Nº 1. During 1999, table wines represented 67.3%, fine ones 28.73% and other 3.94% of the total consumption

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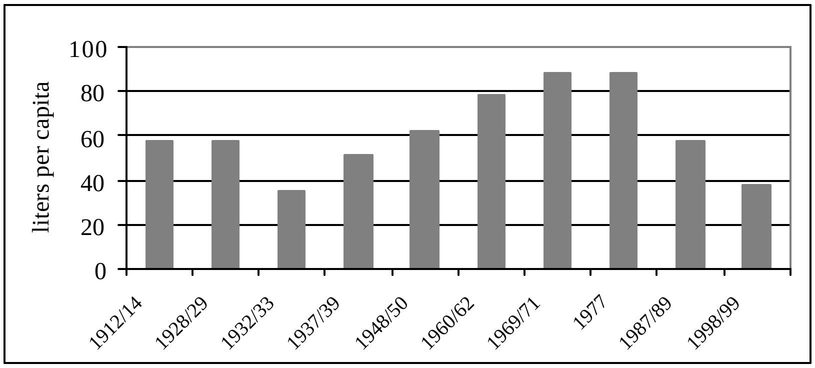
Figure Nº 2. Annual per capita wine consumption



Source: Mendoza Center of Wine Cellars, 2000.

Table Nº 1. Annual per capita and per type wine consumption

Type	1990	1991	1992	1993	1994	1995	1996	1997
Table	45,79	43,19	39,74	33,78	32,21	30,97	29,35	27,8
Fines	6,26	6,97	7,28	7,75	7,67	6,65	8,04	8,39
Reserve	1,27	1,39	1,32	1,31	1,21	0,73	0,42	0,41
Sparkling	0,18	0,26	0,32	0,32	0,38	0,34	0,45	0,61
Others	0,38	0,47	0,23	0,27	0,19	0,15	0,46	0,12

Source: Mendoza Center of Wine Cellars, 2000.

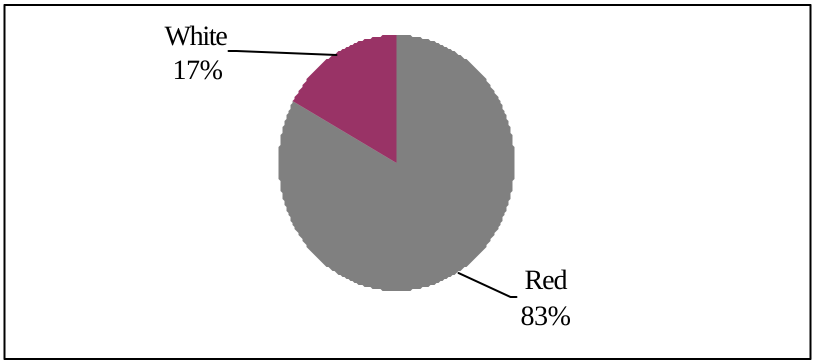
The tendency of the consumption of fine wines is on constant growth, being noticed a strong increase of its participation during the ninety's decade. According to statistics from the National Institute of Vitiviniculture (INV) between 1996 and 1999 the consumption of fine wines increased 17%, arriving in 1999 to 10.23 liters per cápita. Nevertheless this increment, it doesn't compensate the decrease of the consumption of common wines. Some of the causes that motivated the increase of the consumption of fine wines according to the specialists are, more quality demand and the conception of fine wine as a differentiated product, sophisticated and consumed by people with style.

2. Consumers preferences

According to a study about consumers preferences from the magazine Masterwine, which is specialized in fine wines, the results obtained are shown in the Figure Nº3.

The figure demonstrates that exists a clear preference by the consumers towards red wines, and that this continuous increasing in the consumption has been inside a firm tendency for the last few years, even associated with the diffusion of its kindness like preventive of cardiovascular illnesses.

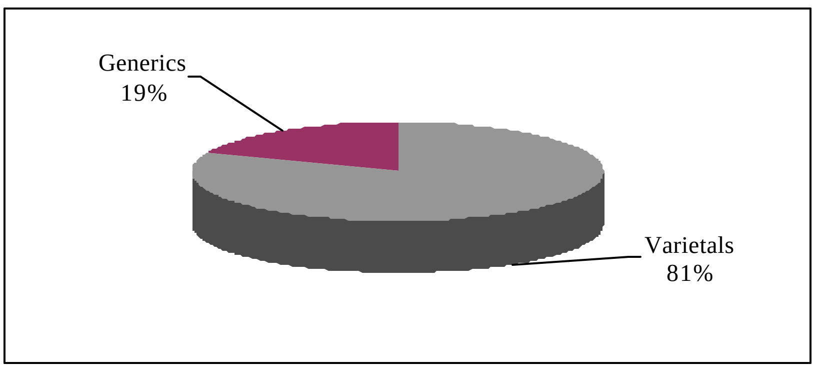
Figure Nº 3. Wines consumed with more frequency.



Source: Masterwine, 1999

According to the composition of the wine, in Argentina exists a preference towards varietal fine wines, showing a growing tendency in that sense, in opposition to generic or cut ones. The reason would be explained on one hand for a fashion imposed by United States, and in the other, for the search of the different stumps recognition by the consumer.

Figure Nº 4. Varietals or generic consumption.



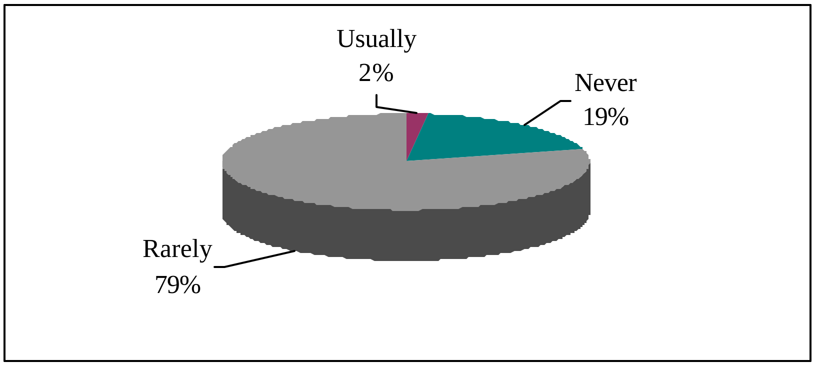
Source: Masterwine, 2000

If we take into account socio demographic aspects, it would be observed that the biggest consumers of wines are middle-aged (between 36 and 55 years old), although exists a falling tendency in the consumption. In 1982, 70% of this population's sector consumed wines, while in 1997, the percentage descended up to 20%. As the age of the consumers increases the tendency in the consumption of wines goes consolidating. This brings harnessed that this product has been displaced and eliminated from the adolescents and young fringe, which results to be the most important and traditional consumer group.

The remarkable decrease in the consumption through the years in the segment of the youths, is due to diverse factors, among them the great quantity of substitute products (juices, soft drinks and beer) and to its strong diffusion; changes in the cultural values, social and habits life and of consumption models; little stimulation through the publicity related to other drinks; economic reasons; etc. The interaction of these variables determines a rejection of the generational type wines in the youths, because they are not identified with them.

As for the origin of the wines, the Argentinean consumer prefers national wines, where he can find a wide offer (Figure Nº5). Most of the people are satisfied with the offer of products from Argentina. Imported wines that can be seen in the internal market, come from Chile, France, Spain, Germany and USA. Chile in 1997 shared 49% of the imports, with 35.000 hectoliters, increasing in 1998 to 59%, and the rest of the countries constituted in 1998 35% of the imports. In the wine market can be observed a drop in the consumption of foreign wines that would be due to the good quality of the national wines, added to the high prices of some imported wines.

Figure Nº 5. Consumption of imported wines.



Source: Masterwine, 2000.

According to the socio economic stratum of the consumers, there is a great difference among social classes in what concerns to the quality of the demanded product. The classes ABC1 consume fine wines, while the classes D, E consume table wines.

3. Products diversification. Segments of prices

The market of wines is compound for the following categories:

- Table or common wines
- Fine wines
- Reserves
- Sparkling

This group of categories are not well recognized by the consumer, and takes him into confusion. For example, a fine wine is recognized as a high quality product in Argentina, while a reserve is consider as a half quality wine. As it doesn't exist in the country a technical parameter that allows this denomination, the INV has declared to the category reserve as nonexistent since 1996. In the contrary, in other countries reserve means wine of great category.

Inside the group of the fine wines exists a wide varieties of qualities and prices. The stumps, the elaboration process, the trade mark, among other attributes, are the factors that influence in the price to the consumer.

<u>Classification for price:</u>

In the market of fine wines can be distinguished three defined segments of prices:

- ***Low***, less than 2.5 U$S/bottle.
- ***Medium***, between 2.5 and 6 U$S/bottle
- ***High***, overcomes 6U$S/bottle.

Low priced fine wines, are dedicated to consumers with little knowledge and their election is influenced by marks and the low prices. In this segment exists a demand of recognized marks to grant trustability. The biggest demand can be observed here (Table Nº 2).
Medium priced fine wines valorize more the stumps. In the labels always appears the mark and the grape varietal that conforms it distinguishing these products.
High priced fine wines are elaborated with the same grape varietals that those of the previous group. These wines are distinguished for their high quality and where the name of the cellar grants guarantee of quality. This type of wines are bought by qualified consumers.

Table Nº2. Price level segment sharing in the market of fine wines.

PRICE LEVEL	PERCENTAGE
High	6.50
Medium	21.50
High	72.00

Source: Claves 1994.

As a result of the quantity and qualitative changes of the internal demand of fine wines, the level of consumption of the higher prices segments are in a constant growth. The demand of high priced marks increased extraordinarily in 1999. While three years ago wines more required by the experts were those priced on the average between 10 and 11 $, during 1999 those more desired in this segment of consumers were offered for more than 40 $ (Panorama Sectorial, 1999)

<u>Classification for stumps</u>

- **Varietals:** wines elaborated with an only one wine varietal, or with a small cut percentage (less than 5%).
  - ***Red Varietals:*** Cavernet Sauvignon, Malbec, Merlot, Syrah, Pinot Noir.
  - ***White Varietals:*** Chardonnay, Torrontés, Sauvignon Blanc, Chenin Blanc, Semillón.
- **Cut or generic:** these are wines elaborated with more than one grape varietal. According to the experts cuts are the best wines, like fine wines to the French style, where the tradition is to mix different grapes. In spite of that, the fashion of the varietals was imposed by United States and it could be a fleeting snobbery. However, that consumers look for to be identified with the different varietals, it means that the market is sophisticating. The participation of each grape varietal in the demand of fine wines is the following one:

RED WINES	WHITE WINES
Cabernet Sauvignon 54%	Chardonnay 58%
Malbec 24%	Sauvignon Blanc 22%
Merlot 9%	Torrontés 8%
Syrah 7%	Semillón 6%
Tempranilla 4%	Chenin 4%
Others 2%	Others 2%

Source: Masterwine, 2000.

4. Brief analysis of wine drink substitutes

The drink sector was one of the main characters of the changes produced in the habits of the consumers. In Argentina it is a sector which had a great expansion in the decade of the `90, especially in what concerns to non alcoholic drinks and beers. The sector has a participation of the order of 4% in the industrial product and had a growth of 52% between 1990 and 1995.

The dimension of the market of the main drinks, (wine, beer, soft drinks, juices, mineral water, sodas, and liquors), was in 1996 of a volume of 6.827 million liters, and 5.587 million dollars in sales. According to a report of Nielsen published by the Mercado magazine in August of 1997, the consumers opted for the consumption of non alcoholic drinks. Over total sales of $6.193 million dollars, the item non alcoholic drinks represented 53,6%, while the alcoholic drinks 33,5% (Table N° 3).

Table Nº3. Main drinks billing in Argentina during the first semester of 1997.

PRODUCT CATEGORY	BILLING (millions of U$S)	PERCENTAGE (%)
Non alcoholic	3.319,67	53,60
Alcoholic	2.072,99	33,50
Infusion	800,70	12,90
Total	6.193,70	100,00

Source: Magazine Mercados, 1997.

Inside the alcoholic drink category, the beer was one of the products with the bigger growth index of the last years. Their sales remains with more than a third of the one achieved by the category and it has a market participation that overcomes in almost 10 points to common wines, product to which comes displacing in the preferences of the consumers. On the other hand, wine contributes with more than the 50% of the total sales of the category.

Soft drinks

The market of drinks sodas has a strongly recurrent evolution that understands the initial fall up to 1982, year in that starts a recovery that culminates in 1987, and a new retraction in the years of high inflation begins (1989-1990). Since 1991, this sector enters in a recovery stage that persists until today. The soft drinks are the leaders of sales in the drink sector, with a billing of 2.143 million dollars in 1997.

The Argentinean market, is highly concentrated. Coca Cola and Pepsi constitute near 92% on the total production and sales. Coca Cola has the first position in this item representing 65% of the total. However, in the last years chains of supermarkets have been launching their own marks, with good acceptance by the consumers due to constitute a product with a very good price-quality relationship.

The consumption of soft drinks began to increase in 1992, reaching a record of production of 2.418 million liters in 1994. Although the next year production fell 13% due to the retraction of the demand for the tequila effect, since 1996 the tendency continues growing, representing in 1997 a consumption per cápita of 68 liters per year.

Among the most important facts in the segment, stands out the launching of dietary or light products that allowed to renovate classic marks, to introduce other new ones and to respond to the consumer's necessities that until that time were not satisfied.

From 37 liters of soft drinks without alcohol per capita and year, consumed one decade ago, it was reached 61 liters in 1993, 66 liters in 1994, and 61 liters again in 1996.

Juices

The segment of the juices was the most remarkable in growth terms. In 1991, the production arrived to 542 million liters; in 1997 the sector almost triplicate that volume, with 1.442 million liters, while the sales increased from $406 millions in 1995 to $558 millions in 1997. The consumption per capita showed a similar behavior: it grew from 16,6 annual liters in 1990 to 42,1 liters in 1997.

The juices of higher price are those refrigerated that at the moment only add 10% of the total of the juices ready to drink, but it is a growing segment. The growth of the juices settled on a demand guided to the search of natural drinks. However, in the Argentinean market the leader category in volume (37,5%), as in sales (41,9%) are the powders to prepare. In this case the consumers privilege to price and to practice.

Philip Morris concentrates 80% of the offer with its marks Tang and Clight, with sales of $220 millions during 1997, what represents a temptation for the rest of the competitors, since the sector is perceived with a great development potential and profitability.

Waters

The mineral and mineralized waters sell now around 600 million annual liters, with a $300 millions in sales.

The consumption of mineral water began to grow in an important way at the beginning of the ninety’s decade. The main companies at the present time are the group Cartellone, the cellar Peñaflor -associated with the group Danone -, Quilmes, Coca Cola and BAESA.

The growth of the market of the mineral and mineralized waters doesn't seem to have reached to their maximum yet. The consumption per capita rose from 7,2 liters in 1991 to 16 liters in 1997. All the companies continue investing a lot of money in publicity and extensions of lines, with the aim to capture new consumers, especially in the youngest segment.

Beers

The brewer sector probably has been the most transformed during the last decade. The brewer industry suffered a concentration of capitals, a notable increase in the consumption and also the import from Europe, South Africa and Brazil.

Bieckert was the first brewer industry installed in Argentina in 1860, followed by the Quilmes company in 1889. In 1950 there were already 25 companies. At the present time the production of beer in Argentina it is distributed in 13 plants, with a strong concentration process and the incorporation of branches from foreign companies. Quilmes, belonging to the Bemberg group, with a dominant position used to capture the 85% of the total market, what attracted three powerful international companies to invest in the local market. Besides Bemberg, CCU group (Cervecerías Unidas de Chile) has also grown in importance that understands Breweries Santa Fe, Breweries Cordoba and Compañia Industrial Cervecera. Lastly Brewery San Carlos, in Santa Fe that maintains their autonomy in the market. In the last years has arrived to the country Anheuser-Busch, world largest producer of beer, associated to the Chilean CCU, with the factory Budweiser, one of the marks with more international presence; Brahma –world fourth largest producer and Brazil’s number one; and lastly, Warsteiner, Germany’s top producer that manufactures the beer Isenbeck since 1994. At the present, Quilmes continues been the leader and with their different marks captures 75% of the total sales at the country. This company invests near U$S 70 millions in incorporation of new technologies and other U$S 60 millions (11% of their sales during 1997) in launches, publicity and promotions every year.

The consumption per capita rose from the 18.84 liters in 1990, until the 29.55 liters 1997, the level of higher consumption registered in the history. The international average is 21 liters per cápita, arriving up to 132 liters for person in Germany. The main causes of this important growth are the competitiveness of prices, the incorporation of the youths between the changes of consumption habits and more quality in the product. It is important to remark that in the decade of the 70 the consumer average age was 30 years old and in the ninety's this average has fallen down 10 years.

During 1997 the Argentinean brewer industry sold 1.264 million liters, almost the same volume of the wine industry whose production was located in 1.350 million liters.

What concerns about imported beers, the demand is reserved for the sectors of more incomes and the origin is Denmark, Germany, Brazil, Holland and South Africa.

Another variety in growing importance has been the craftsman beer type, which responds to consumers that want healthier and differentiated products.

Appetizers

In the last ten years the segment of alcoholic appetizers and vermouths were characterized by a stability in the total market, the fall of the vermouth sales to a rhythm of 3 to 4% and the consolidation of the leadership of Sava Gancia in expense to their competitors.

The industry sold in 1997 4,5 million boxes of 9 liters, what represent more than half of the total of the sales of the liquor distillers market. The US $78 million sales represented a 6% growth respect to 1996´s sales. In spite of this growth, this segment constitutes a mature business, already stable, and in some parts of the world it presents a light decrease. In the Argentina, the outline is similar, spreading more to the maintenance than to the drop.

Appetizers without alcohol

The segment of the bitter appetizers elaborated with herbs has been also favored thanks to the new consumption habits. This segment duplicated its production volume between 1992 and 1997, reaching 80 million liters with sales that ascended to $110 millions. They are drinks that has won presence in the homelike market substituting in great measure table wine. But one of the characteristics that defines the consumption of the bitter ones is their high seasonality.

Sava Gancia, with their marks Terma, Cambá, Monferrato and Tacconi, leaders the market with a participation of more than 90%. Terma is the absolute leader of the market, with 66% of the sales. Sava Gancia aspires to create new consumption situations using extensions of lines.

Conclusions

One of the characteristic factors in the consumption of wine in Argentina is the importance and the size of the market, although it is has been suffering a retraction in volume in the last years, such as traditional countries. The crisis in the demand of table wines, which it is associated to the changes in traditional habits, was caused by the substitution by other drinks. In the contrary, the tendency of the fine wines, with characteristic of superior goods, accompanies the growth of the income per capita and the change toward a consumer that demands bigger quality.

The changes set in the consumption has very different quality demands, which is a condition necessary for the segmentation of the market. The different classes of fine wine can be defined in specific groups, where each one points to a different target, according to the pleasure and purchasing power of the consumer. These differences are the result of the strategies implemented by the wine companies with the objective of satisfying the necessities of a consumer that every day is more and better qualified.

It is clear that Argentina is in a transition process to repositioning the image of wine in the internal market, where the offer presents a great atomization, and the competition is increasing. The actors of the sector have noticed the necessity to renovate their strategies, adapting them to the tendencies described. Although it has been observed a notable advance in the attention of the preferences of the demand, as soon as for the product, competitiveness improvement through differentiation of services and promotion, so that the product is perceived as unique, has not been improved yet. In this sense stands out the necessity to implement well defined strategies to win positioning with respect to the drinks substitutes.

The wine sector in the last times has been guided toward exportation. However, the internal market of fine wines is changing dramatically and has a growing potential that is fundamental to capture, guaranteeing the positioning and avoiding market loss in foreigners' marks hands. Those companies that would implement clear strategies, positioning the marks and differentiating the products and services, are those that will have bigger probabilities of success.

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