

# UNDERSTANDING GERMANY

With its large population of dedicated wine drinkers, it's not surprising that Germany is the world's number one import market. But, as Jürgen Mathäb reveals, Germany is a market mainly focused on low prices, which means there is fierce competition at the higher end.

## SUMMARY BOX

- Germany's distribution structure is not as clear as in other countries, as distributors may play multiple roles in the market.
- Regionalisation is a major factor in the German market.
- A significant percentage of wine is sold through the supermarket and discount sector.
- Pricing is aggressive.

At first glance, it doesn't seem difficult to sell wine in Germany. The import market is the world's largest, with 14.5m hectolitres. The discounter Aldi alone possesses a market share of 12.5%; the remaining discounters hold 17.5% of the total volume. So it seems that all you need to do is get into the discount trade and you are in business. If not, the market is still large enough to move a couple of containers.

Only rarely will this simple calculation pay off. Nonetheless, German consultants are surprised time and again by the mistaken ideas foreign producers have about wine marketing in Germany. Individual sales targets are calculated based on the size of the market, to be inevitably followed by a huge disappointment toward year's end, when the targets in most cases prove unrealistically high. Well-nigh all German importers complain about the unreasonably high sales expectations of their suppliers.

### Complicated structure

In reality, it is precisely due to its size that the competitive pressure is so great in the German market. In addition, there exists a highly complicated distribution network, as well as a high proportion of very cheap wines. Nothing much will be gained in this market without a definite import strategy, since distribution is atomised, regionalised and without an obvious structure – at least for wines with sales prices above €5.00.

Regionalisation is due not least to the fact that Germany is not geared to one dominant centralised urban region – like England, for instance, is geared to London – but has a number of huge urban centres like Hamburg,

Berlin, Munich, the Rhine-Ruhr region (Cologne, Essen, Düsseldorf, Dortmund and so on) or the Rhine-Main region (Frankfurt, Offenbach, Wiesbaden, Mainz and Darmstadt) and a series of smaller conurbations. The activities of a multitude of smaller trading and import companies are each concentrated on one single metropolitan area.

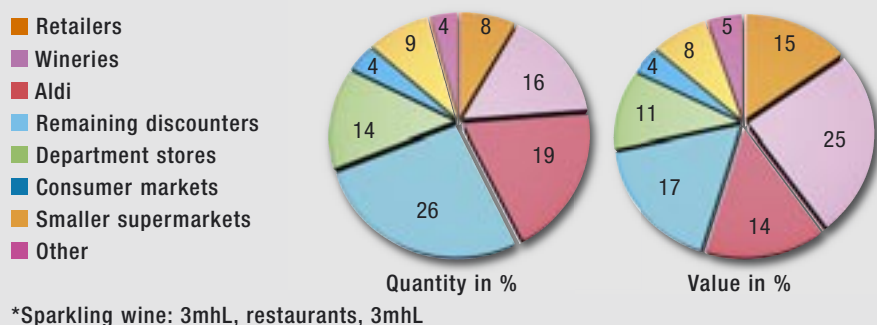
Only the leading major corporations in the food trade, with the five market-dominant companies – Edeka, Metro, Rewe, Lidl/Schwarz and Aldi, which between them control a market share of well-nigh 70% of all goods – are organ-

ised on a national level to any extent. Ninety-five percent of the sales of all foodstuffs are covered by the top 20 retailers in the German food trade.

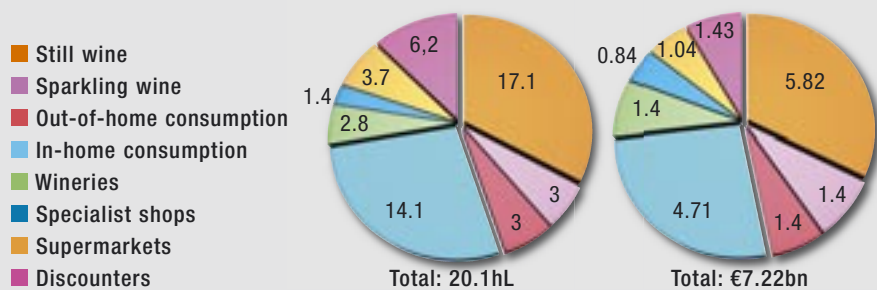
The significance of the food trade can be demonstrated by the fact that the discounter Aldi alone distributes 12.5% of the entire volume of wine sold in Germany. The discounters between them account for 30% of the total volume. If one adds department stores, consumer markets and smaller supermarkets, the food trade holds a sales share of around 49%. Owing to the fact that it is very inexpensive wines that are predominantly sold in the food trade, the proportions according to value are slightly different. Yet here the market share of the food trade in wine sales is also close to 40%.

The discounters' range of products is limited and the prices are aggressive. This has an impact on the overall buying behaviour in the food trade. The GfK consumer research society calculated that wines that retail below €2.00 a

## Market share of sales outlets 2008 (excluding sparkling and the on-trade\*)



## Structure of the German wine market 2008



bottle held 72% of the market share in the first half of 2009. Wines costing between €2.00 to €3.00 represented another 20%, making €1.80 a bottle the average price for wine sold through the food trade. As a comparison: GfK determined there was an average price of €4.50 per bottle in the specialist trade, or €6.00 per litre.

Given the volumes, the price pressure and the overall low prices in the food trade, the interest of many foreign producers is directed, not surprisingly, above all to the specialised trade and catering industry, which is active, with few exceptions, on a regional and specialised level, though. Here a good knowledge of the market by the vendor or importer is a prerequisite, and both have to be aware that nearly every relevant producer in the world is seeking to be part of this segment.

### Distribution

A rigid company structure – as in the US, for example, based on a pattern of ‘importer’, ‘wholesaler’, ‘retailer’ – is nonexistent in this segment. Many distribution companies, both large and small, cover all three categories. It is often hard for outsiders to understand the business: a typical wine trader with a turnover of between €2m and €5m, for example, is simultaneously a specialised trader with one or more retail shops, a wholesaler supplying the catering industry, as well as a regional or even a national direct importer, at least for the range of sup-

pliers to whom it's particularly committed. The trader will purchase the remainder of its goods from other importers. All this activity is frequently limited to relatively small local regions. Only the Internet trade is conducted on a national level.

There are complicated distribution channels from producer to consumer that break down differently according to type of wine, customer structure, level of volumes and prices, and according to the producer's sales strategy or the buyer's purchasing strategy. Naturally, the number of trade steps that the product has to go through from producer to consumer has a considerable impact on the consumer end price.

There are a number of ways to become active within the German market:

*Direct marketing:* Its disadvantage is that the high sales and distribution expenditures rise with distance to the market.

*Direct import, food trade:* Purchasers in the food trade definitely make use of direct contacts to wholesale suppliers; among other things, for production of their own brands.

*National importer:* The number of importers and agents who are prominent on a national level and possess an international range of products number no more than a couple of

dozen. Several of them focus on delivery to the food trade, others on delivery to specialised trade and catering. Only a few are successful in doing both.

*Specialists:* Many importers, who are active in part on a national level as well, have specialised in certain regions or countries. Usually, they deliver to the specialised trade and catering; in individual cases, also to large-scale retail trade.

*Regional importer/specialised wine dealer:* In this range, one finds companies from the small specialised shop up to Jacques' Wein-Depot, the largest specialised retailer with more than 200 specialised shops. Here activities such as importer, wholesaler and retailer get especially blurred. But many mid-sized foreign producers are quite successful with cleverly chosen regional distributors in four or five areas of high population density.

Marketing through the on-trade, cash and carry trade or the beverage trade will need to depend, as a rule, on an importer. Despite how complicated the market is, however, entry is not impossible. There is plenty of money to be made in the German market, for those who work hard and enter with a very good knowledge of the market. ■

## GERMANY TASTED AND RATED

Germany's major wine trade magazine has been comparing wines from the major retailers since the 1990s. Dr Hermann Pilz, editor-in-chief of *Weinwirtschaft*, gives his verdict about what the consumers in Germany are being offered.

“Fewer deficiencies than ever” but “still too many” was how we headlined our assessment of the annual results of our discounter tastings; “every sixth wine is undrinkable” and “tending to the shelf is still an issue” is what we said after we tested supermarkets, consumer markets and self-service department stores.

For food retailing, wine is a traffic generator as well as being a category of merchandise that is good for both sales and image. Managed properly, wine can contribute a considerable amount to the margin. The substantial share of wine in the entire turnover of German food retailing, which amounts to around €180bn, is approximately €10bn or 5% to 6% of the total. Thus wine

constitutes an essential and fixed category, a *sine qua non* for every grocer opening for business. Some independent grocers dedicated to wine at the specialist trade level, like the independent traders Edeka or Rewe in southwestern Germany, have an even greater share of sales, at 8% to 10%. So it's therefore surprising to see just how negligent food retailers are as a whole in their handling of the wine category.

*Weinwirtschaft* magazine has conducted systematic tests of wines from food retailers for around 15 years. Throughout that time, there have been two causes for complaint. The first is that the basic quality of the wine itself has been deficient. The second is the amount of time the wine stays on the shelf in conditions that hurt its quality. With

### Top 20 businesses in the grocery trade 2008 Food revenue €m

Edeka-Gruppe	33,576
Rewe-Gruppe	24,784
Schwarz-Gruppe	21,495
Aldi-Gruppe	19,824
Metro-Gruppe	13,235
Tengelmann-Gr.	8,562
Lekkerland	7,825
Schlecker	4,757
dm	3,025
Rossmann	2,182
Bartels-Lagness-Gr.	2,078
Norma	2,057
Globus	2,030
Bünting	1,260
Dohle-Gruppe	1,206
Coop	1,157
Netto Nord	1,016
Tegut	890
Müller	827
Ratio	568

SOURCE: TRADE DIMENSIONS

- The Weinwirtschaft tastings systematically scrutinise wines from the major food retailers.
- Representative wines are bought from outlets across Germany, at the magazine's expense. Samples are not supplied.
- The results of the tests are eagerly awaited in Germany and have been responsible for raising the overall standard of wines offered to consumers at the average price points.
- As Dr Pilz makes clear in this report, German consumers are still not being serviced properly.

unsold white wines from 2002 and 2003 still loitering on the shelves, it's an issue of stock rotation and attention to the shelf from the trade. The source of the problem is irrelevant, however, for the purposes of our qualitative assessment of a retail outlet, based on the buying behaviour of the end consumer. The unsuspecting customer gets the short end of the stick in any case, forking over good money for bad merchandise, whoever is at fault.

### The tastings

The retailer tests conducted by *Weinwirtschaft* attempt to promote transparency and put the various types of retail outlets to the test, by taking systematic snapshots of the range of products on offer, or of certain

partial ranges. Naturally, the various retail outlets are not completely comparable; in the case of discounters, for example, the range of products is straightforward, encompassing an average of 60 to 80 wines and sparkling wines. The supermarkets and consumer markets, on the other hand, often have a range between 300 and 500 items, and some self-service department stores easily carry more than 1,000 wines and sparkling wines. While the discounters' limited range of products are bought in their entirety, the purchasing at self-service department stores and supermarkets and consumer markets includes – analogous to the discounters' range of products – the fast-moving items in the entry-level price segment (up to €3.00) and the mid-price

segment (around €3.00 to €6.00). Individual wines, such as Champagne or several Bordeaux wines in the entry-level price category, are ranked in somewhat higher price regions. A total of 3,646 wines were tested over the course of the food retailing tests in 2009, more than ever before. The discount trade accounted for 1,950 of them; supermarkets and consumer markets for 754; and the self-service department stores for 942 wines.

The food retailing tests cover the three most important distribution channels in food retailing: the discount, supermarket and consumer markets, as well as self-service department store, according to the generally accepted definitions of German food retailing. Naturally, what is interesting in the annual results are the following questions: "Where does the consumer get the least-spoilt and least-deficient wines" and "How do the product ranges on offer compare over several years?" As to question one, it can be said that the three different types of distribution have converged over the last few years. The discounters are definitely in the forefront, ahead of the self-service department stores: they had only 3% of wines deemed 'grossly deficient' and 7.9% of wines deemed 'weak, with deficiencies'. The

### A sample of the supermarkets tasted and rated

Shopping centre	Kaisers		Tengelmann		Hit		E-Center		Rewe		Tegut	
Trading company					Dohle		Edeka Bayern					
Place of purchase	Bonn		Stätzling		Aibach		Ingolstadt		Ingolstadt		Friedberg	
Sample size	65	100.0%	66	100.0%	81	100.0%	79	100.0%	62	100.0%	73	100.0%
Outstanding	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Good to very good	3	4.6%	5	7.6%	2	2.5%	0	0.0%	2	3.2%	2	2.7%
Satisfactory	37	56.9%	28	42.4%	45	55.6%	41	51.9%	28	45.2%	35	47.9%
Sufficient	19	29.2%	19	28.8%	22	27.2%	25	31.6%	23	37.1%	22	30.1%
Weak, with defects	4	6.2%	11	16.7%	8	9.9%	7	8.9%	3	4.8%	8	11.0%
Major faults	1	1.5%	1	1.5%	2	2.5%	3	3.8%	4	6.5%	6	8.2%
Corked	1	1.5%	2	3.0%	2	2.5%	3	3.8%	2	3.2%	0	0.0%

### The hypermarkets tasted and rated

Shopping centre	Hit		Ratio		Edeka		Real		Kaufland		Globus	
Trading company					Edeka Rhein-Ruhr							
Place	Mayen		Stadthagen		Koblenz		Hannover-Linden		Kitzingen		Ludwigshafen	
Sample size	73	100.0%	78	100.0%	83	100.0%	86	100.0%	75	100.0%	88	100.0%
Outstanding	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Good to very good	2	2.7%	2	2.6%	2	2.4%	3	3.5%	4	5.3%	4	4.5%
Satisfactory	38	52.1%	44	56.4%	46	55.4%	44	51.2%	38	50.7%	51	58.0%
Sufficient	24	32.9%	26	33.3%	24	28.9%	28	32.6%	20	26.7%	17	19.3%
Weak, with defects	9	12.3%	3	3.8%	5	6.0%	5	5.8%	6	8.0%	8	9.1%
Major faults	0	0.0%	2	2.6%	2	2.4%	5	5.8%	5	6.7%	6	6.8%
Corked	0	0.0%	1	1.3%	4	4.8%	1	1.2%	2	2.7%	2	2.3%

self-service department stores had 5.3% of wines assessed as 'grossly deficient', with 8.6% as 'weak, with deficiencies'; the supermarkets and consumer markets 6.8% and 9.9% respectively. The difference between the distribution channels, though, is not as great as it was 10 or 15 years ago. In a comparison covering several years, there has been a definite improvement, with a lower number of unacceptable wines. Today, in contrast to earlier years, around 50% of wines have been deemed satisfactory, across all three distribution channels. Self-service department stores stand in the forefront here with well-nigh 52%, followed by the discounters with 51.3% and the supermarkets and consumer markets with 49.2%. Wines deemed 'sufficient' account for around 32% across all distribution lines; the discounters, with 34.2%, can boast of markedly more wines in this range than the supermarkets, consumer markets and self-service department stores are able to do. The share of wines deemed to be 'good to very good', which comes to 2.7% of all tested wines, is lower in 2009 than it has been previously, when at least 4% of wines were in this category. So it seems that food retailing in Germany has not seen any substantial improvement at the top of the category.

Is it worthwhile to resort to medium-price products (€3.00 to €6.00) at the outlets of supermarkets and consumer markets, instead of buying solely in the entry-level price segment (up to €3.00)? This answer is definitely 'yes'. Although the share of wines with deficiencies ('grossly deficient' and 'weak, with deficiencies') is still far too high – 16.2% in the entry-level price segment and 14.1% in the medium-price segment – the wines in the medium-price segment, with 54.3% wines deemed satisfactory, definitely performed better than wines in the entry-level price segment (47.4%). The share of wines deemed 'good to very good' is still meagre, but at least the chances of going home with a satisfactory or even a good wine are incomparably better here than in the entry-level price segment.

#### The results in detail

The overall result for supermarkets and consumer markets, as demonstrated by 754



**“Every fifth wine from the supermarkets and consumer markets in the Federal Republic of Germany is flawed and undrinkable, with more or less gross sensorial deficiencies.”**

**Dr Hermann Pilz,**  
editor-in-chief, Weinwirtschaft

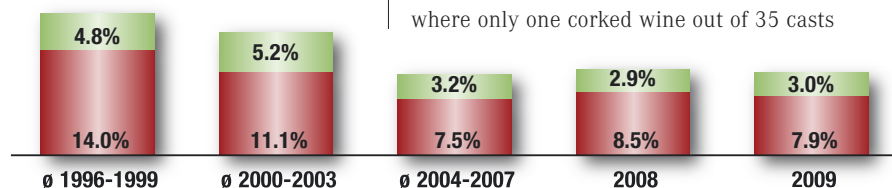
wines, are so-so, even if 50% of the wines at retail outlets like Kaiser's, Edeka, Tengelmann, Hit, Rewe, Tegut and Famila were able to get a 'satisfactory' assessment. That constitutes the good news for this distribution channel.

The bad news: Every fifth wine from the supermarkets and consumer markets in the Federal Republic of Germany is flawed and undrinkable, with more or less gross sensorial deficiencies. That is not exactly a recommendation for the supermarkets and consumer markets as a primary source for wine shopping.

None of the outlets emerged from the test completely free from deficiencies. Only the performance of a single Kaiser's outlet in Bonn and one outlet of Edeka Minden in Hanover can be deemed acceptable. The Kaiser's outlet had only one wine bearing the assessment of 'grossly deficient' and thus has the cleanest slate of all. The reason for that lies in the comparatively good result in the entry-level price segment, where only one corked wine out of 35 casts

Famila		Neukauf		TOTAL	
Famila Nordwest		Edeka Südwest			
Uetze		Maulburg			
72	100.0%	69	100.0%	754	100.0%
0	0.0%	0	0.0%	0	0.0%
3	4.2%	3	4.3%	24	3.2%
23	31.9%	32	46.4%	371	49.2%
25	34.7%	14	20.3%	214	28.4%
9	12.5%	6	8.7%	75	9.9%
8	11.1%	12	17.4%	51	6.8%
4	5.6%	2	2.9%	19	2.5%

To the left is a sample of the businesses that were tasted and rated by the Weinwirtschaft team.



Negative results 1996-2009

Weak, with defects Major faults

Famila		Marktkauf		TOTAL	
Hannover		Wunstorf			
73	100.0%	82	100.0%	942	100.0%
0	0.0%	0	0.0%	0	0.0%
1	1.4%	3	3.7%	33	3.5%
31	42.5%	38	46.3%	488	51.8%
27	37.0%	25	30.5%	274	29.1%
8	11.0%	6	7.3%	81	8.6%
6	8.2%	8	9.8%	50	5.3%
0	0.0%	2	2.4%	16	1.7%

#### Total results

Test year	2009		2008		Ø 2007-2005	
Sample size	3,584	100.0%	3,205	100.0%	2,234	100.0%
Outstanding	0	0.0%	0	0.0%	0	0.0%
Good to very good	100	2.8%	122	3.8%	94	4.2%
Satisfactory	1,860	51.9%	1,543	48.1%	1,143	51.2%
Sufficient	1,155	32.2%	1,038	32.4%	729	32.6%
Weak, with defects	310	8.6%	315	9.8%	172	7.7%
Major faults	159	4.4%	187	5.8%	96	4.3%

Sessions in 2009 compared to previous years; wines without cork taint prior to 2004 are not applicable.

a blemish on their performance. In contrast, the Kaiser's outlet finished only fourth in the medium-price segment, clearly outgunned by the Edeka-Minden outlet in this segment, which came out second. Any further interpretation of the performance of the individual outlets according to overall result, as well as for the entry-price level segment and medium-price segment, is a pointless undertaking. The pivotal number of 'grossly deficient' wines is catastrophically high in practically all cases.

According to the overall result, another outlet belonging to Tengelmann Group landed in third place, albeit it also recorded a questionable balance, with 11 of 66 wines that were tested ending up in the 'weak, with deficiencies' category. Yet it is the 'grossly deficient' sector that sets the agenda. One Hit outlet, belonging to the Dohle Group, made it into the midfield in the overall result, as did the outlets belonging to the Edeka Rhine-Ruhr and Edeka Südbayern Regional Associations (in places five, six and seven) as well as one Rewe outlet. The Rewe outlet could have finished much better, but four wines out of 62 that had to be deemed 'grossly deficient' are simply too many. The results from rankings eight to eleven are alarming: the performance of a Neukauf outlet, with 29% spoilt, deficient or corked wines – believe it or not – set something of a negative historical record in the testing of supermarkets and consumer markets.

Tengelmann can be relatively content in that it held first and third place. Famila came out ninth and tenth, which cannot be very satisfying. The results within the Edeka Group have drifted the most in this year's test. Their slogan 'We love foodstuffs' ought to be considered in a new light: it hardly applies to their own range of products in

the case of the wine and sparkling wine merchandise group.

### Self-service stores

There were a total of 942 wines bought and tested – or an average of around 80 wines per outlet – accounting for a substantial share of the individual store's range of products. None of the outlets achieved an impeccable result and so it is useless to argue about who deserves first place in the overall result. According to our assessment formula, the wines evaluated as 'grossly deficient' weighed heaviest in a negative sense. The second most important factor was the percentage of wines deemed as 'weak, with deficiencies'. That is why the Ratio outlet and the outlet of Edeka Rhein-Ruhr – with two 'grossly deficient' wines each – did not have much of a chance to lead the field, despite their overall low rate of deficiencies of 6.4%. Only the Famila Centre in Hanover and a Hit outlet in Koblenz did not suffer the shame of 'grossly deficient' wines. The rate of wines deemed 'weak, with deficiencies', nevertheless, is far too high for both outlets (at 12% and 13%, respectively). One could describe the performance with the phrase: "A few escapees at the bottom, yet a great many mediocrities". The trade managers may have to decide for themselves whether this is really satisfactory and sustainable in the future, given the competition in the discount trade. The results of the four outlets at the bottom of the chart are alarming, with a thoroughly catastrophic outcome in the entry-level price range – the rate of defi-

### SBW and SU + VM\*: price categories compared

Price category	Entry price		Mid range	
	Count	Percentage	Count	Percentage
Sample size	899	100.0%	797	100.0%
Outstanding	0	0.0%	0	0.0%
Good to very good	22	2.4%	35	4.4%
Satisfactory	426	47.4%	433	54.3%
Sufficient	288	32.0%	200	25.1%
Weak, with defects	86	9.6%	70	8.8%
Major faults	59	6.6%	42	5.3%
Corked (x2)	18	2.0%	17	2.1%

\*Self-service department stores; supermarket and convenience stores.

ciencies exceeds 20% in all cases. In other words, a fifth of the wines were undrinkable. At any rate, the managers at Marktkauf and Globus, where the biggest issues are apparently in the entry-level price segment, should start to worry. Once every seventh or eighth wine in the lower price segment is deemed 'grossly deficient' or 'weak, with deficiencies', the stores are hardly capable of defying the Aldi alternatives of the discount trade. It is glaringly obvious that there is little attention paid to what's on the shelf, since 'complete oxidation' was one of the most frequent reasons a wine received a negative judgement.

### Conclusion

The number of grossly deficient wines or wines deemed weak, with deficiencies, is decreasing in all the distribution channels in German food retailing. The leading discounters such as Lidl and Aldi have reduced the deficiencies to a great extent. Enhanced quality controls, a better rotation on the shelves and the increased use of alternative bottle tops, instead of corks contaminated with mould, have all exercised a positive impact here. The share of good to very good wines, nevertheless, remains too low in all distribution channels. Being geared to low

prices prevents a noticeable improvement in food retailing. For a few cents more, the result in the food trade could be considerably better. ■

This is a version of material that has appeared in Weinwirtschaft magazine, published by Meininger Verlag

### Wine assortments 2009 – distribution outlets compared

Distribution	Discount		SU + VM*		SB-Warenh.**		Total	
	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage
Sample size	1,950	100.0%	754	100.0%	942	100.0%	3,646	100.0%
Outstanding	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Good to very good	43	2.2%	24	3.2%	33	3.5%	100	2.7%
Satisfactory	1,001	51.3%	371	49.2%	488	51.8%	1,860	51.0%
Sufficient	667	34.2%	214	28.4%	274	29.1%	1,155	31.7%
Weak, with defects	154	7.9%	75	9.9%	81	8.6%	310	8.5%
Major faults	58	3.0%	51	6.8%	50	5.3%	159	4.4%
Corked (x 2)	27	1.4%	19	2.5%	16	1.7%	62	1.7%

Supermarket and convenience stores \*\* Self-service department stores

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