

SOUTH AFRICAN WINERIES IN THE U.S. MARKET: IMPORTER-PRODUCER TIES AND SHELF PRESENCE

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Introduction

A regular browser of the South African wine section in bottle stores in the USA will notice that the same brands show up repeatedly: Jam Jar, Goats Do Roam, Chocolate Block, Mulderbosch, and Secateurs are among the most common. Although most SA wineries have struggled to make it on to American shelves, the wineries that produce the above-named brands have acquired a significant shelf presence. The question that prompted this research was why and how these wines (and wineries) have come to represent what we might call Brand South Africa in the US marketplace. A related, and equally important, question is what went wrong for the many other wineries whose wines did not reach bottle-store shelves.

It is not only SA wines that struggle for visibility. The noted *New York Times* wine critic, Eric Asimov, titled one of his columns “Why Can’t You Find That Wine?” in response to his readers’ complaints that they were unable to find in their local bottle stores many of the wines he had reviewed. He acknowledged their frustration, which he attributed in part to his own preference for reviewing wines from small producers, whose products were “intriguing and distinctive but less available” (*New York Times*, 11 February, 2014). The US wine market is dominated by the brands of the big wine conglomerates (E&J Gallo, The Wine Group, Constellation Brands, Treasury Wine Estates, and Pernot Ricard), which are distributed by equally large distributors (Southern Glazer’s Wine and Spirits, Republic National Distributing Co., and Breakthru Beverage Group). These three companies sell half of all the wine in the USA. The question we seek to answer is how any SA wineries manage to break into the US market, given that they are all relatively small. Our answer, based on qualitative and quantitative evidence, is that importer-producer ties are critical.

Research Methods and Data

Two sources of data were used for this project. First, 68 people involved in the wine industry—winemakers, importers, distributors, and retailers—were interviewed; all but one were recorded. Second, we used Wine-Searcher Pro to identify 864 liquor stores in the US that in February 2017 had at least one bottle of a SA wine on their shelves; the bottles came from 156 different wineries, representing more than one-quarter of SA’s total of 568 wineries. We constructed a database containing information about characteristics of South African wineries as well as their store presence throughout the United States. We first counted the of stores in which

each winery was present (the dependent variable), to which we added data on the importer, the winery's age (its founding date and when it produced its first case), its size (annual production in tons and cases), and its quality (how many wines from the winery received 5-star ratings between 2012 and 2016 from Platter's South African Wine Guide). We converted importer into a dummy variable coded 1 (the importers that made SA wines their exclusive or primary focus) and 0 (the importers whose primary focus was non-SA wines),

We ran a negative binomial regression for our analysis because our dependent variable, the number of US stores in which each wine was present, is a discrete, count variable. We used its log value. Our independent variables were the type of importer, winery age, log value of the number of cases produced, and the winery's number of 5-star wines.

Findings

A handful of SA wineries have a significant shelf presence in the USA, although the majority do not. Four wineries—Cape Classics, Excelsior, Fairview/Spice Route, and Boekenhoutskloof—had their wines in over 300 stores, whereas 91 wineries were in fewer than 20 stores. Table 1 indicates that the type of importer and the amount of cases produced were statistically significant, while the winery's age and reputation were not significant.

Table 1: Factors predicting SA shelf presence in USA

Negative binomial regression						
					Number of obs	= 130
					LR chi2(4)	= 52.80
Dispersion = mean					Prob > chi2	= 0.0000
Log likelihood = -571.58725					Pseudo R2	= 0.0441
stores	IRR	Std. Err.	z	P> z	[95% Conf. Interval]	
SADummy	.6271085	.148199	-1.97	0.048	.3946262	.9965511
Platter5~201216	1.087368	.0609575	1.49	0.135	.974223	1.213653
logcases	1.478145	.0844679	6.84	0.000	1.321525	1.653326
AgeFirst	1.000089	.0029581	0.03	0.976	.9943078	1.005904
_cons	.716885	.4268293	-0.56	0.576	.2231767	2.302768
/lnalpha	.2187798	.1138076			-.0042789	.4418385
alpha	1.244557	.14164			.9957302	1.555564
Likelihood-ratio test of alpha=0: chibar2(01) = 6204.29 Prob>=chibar2 = 0.000						

Wineries that were represented by importers that did not focus on South Africa were more likely to have their wines on US shelves. This result may seem counter-intuitive because the SA-focused importers were knowledgeable and motivated to sell their wines. Moreover, many of these importers signed distribution deals

with the major distributors, a step that appeared to enhance their prospects of gaining shelf presence. These deals often turned out to be worthless, however, because the distributors made little effort to persuade the retailers to carry the wines. In contrast, the importers who did not specialize in SA wines and seldom knew much about them, were nonetheless able to use their non-SA wines as leverage to compel their distributors to promote the SA brands.

We recommend that producers seeking to get into the US market should seek out importers that have achieved success with other countries' wines even if these importers have no experience in importing South African wines.