

Press Report 14 December 2020

The latest ProWein Business Report 2020 is now available: Covid-19 is the biggest challenge for the global wine industry

- **The pandemic causes disruption of distribution channels**
- **Hotels, restaurants and exports hit particularly hard**
- **Only slow recovery expected, further losses in 2021**
- **Digitisation and structural change are accelerating**

On behalf of ProWein, the Geisenheim University surveyed experts from 49 countries at the end of 2020, thereby covering the entire value chain of the wine industry. This year's survey focused on the effects of Covid-19 on the global wine industry.

According to Prof. Simone Loose, Director of the Institute for Wine and Beverage Research at the University of Geisenheim, the ProWein Business Report is the first report worldwide to quantify the global impact of Covid-19 on the different areas of the wine sector and to measure the expectations for the necessary future direction of the wine industry. "The extraordinary importance of the Covid-19 topic for the wine industry is demonstrated by the very high participation rate of international experts, doubling to almost 3,500 participants compared to previous years," says Bastian Mingers, Project Director of ProWein. This underlines the informative value of the current Business Report. "Everyone in the industry has a high interest in comparing with others the effects experienced on their business. At the same time, all businesses are looking for clues for possible strategies and ways out of the crisis.



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Summary

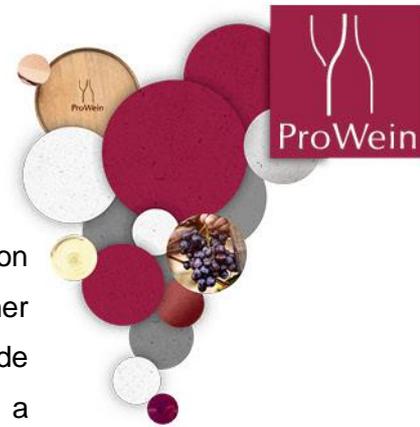
The Covid-19 pandemic and the resulting decline of the economic situation are the most acute threats to the wine industry, which are suppressing other challenges such as health policy, climate change and the international trade war. Hotel and restaurant closures caused by the pandemic have led to a global disruption of wine distribution channels. Food retailing and online trading, and to some extent the specialist wine trade, have benefited from these shifts in many countries. However, the lack of foreign tourists caused by Covid-19 led to a sharp drop in local wine consumption in many wine-growing countries.

The impact of the Covid-19 crisis on wine producers varied depending on their sales focus. Smaller wineries were particularly affected by the closures of restaurants and hotels and the lack of tourists. The simultaneous global impact of the pandemic also led to a global decline in wine exports, especially to countries with a high proportion of wine consumption at social events and in restaurants. The industry expects only a very slow recovery of tourism and exports and anticipates a further deterioration of the economic situation in 2021.

For the majority of wine producers in Spain, France and Italy, several of their strongest sales channels, in terms of value and volume, have been negatively affected at the same time. These effects, by far, could not be compensated by increases in online sales.

In response to the pandemic, both retailers and producers intensified their online communication, opened online shops, conducted online tastings and offered delivery services. This digital transformation of the wine industry, which was greatly accelerated by Covid-19, will continue in the future, according to the experts.

Cost reductions and government aid programmes have so far been able to avert extensive redundancies and plant closures. However, the experts expect the industry to consolidate and become increasingly concentrated as the pandemic progresses and some businesses are forced to close down. In the future, companies will also strive for greater diversification across different sales channels and markets in order to spread their risk more effectively. For example, producers are trying to switch mainly to direct customer business and food retailing, which will further intensify competition in these channels in the future. It is feared that cost reductions and postponed



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investments will also slow down the adaptation of the wine sector to climate change and the improvement of environmental sustainability.

Although many consumers have been spoiling themselves with wine during the pandemic, experts expect that the economic consequences of Covid-19 will lead to more price-sensitive consumers and lower sales of premium wines in the future. In contrast, global sales of wine as a whole are expected to recover for the most part after Covid-19.

Current challenges of the wine industry

1) Covid-19 and the economic situation are currently the main threats to the wine sector

The effects of the Covid-19 crisis and the expected negative impact on the global economic situation are by far the most important challenges facing the wine industry this year. Compared to last year, the threat of climate change and health policy have receded somewhat into the background due to the acute threat of the pandemic, but are still considered important.



Covid-19 causes disruption in wine distribution channels

2) Covid-19 restrictions change sales of wine

As a result of global restrictions, the Covid-19 crisis has led to an abrupt change in the purchasing behaviour of consumers. In many countries there have been extensive closures and restrictions in the restaurant and hotel industry. International tourism, which is of immense importance for sales in countries such as Spain, France and Italy also came to a virtual standstill. In



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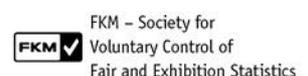


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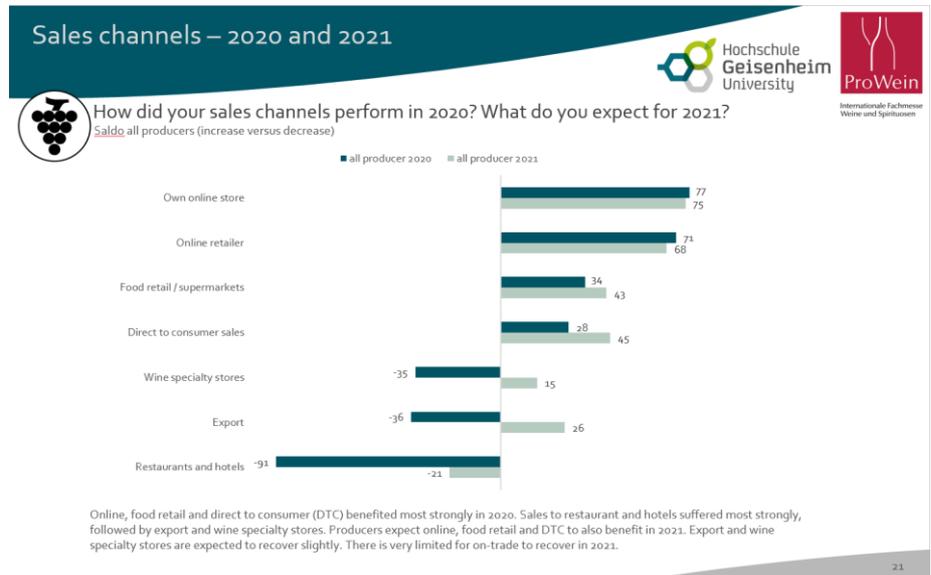
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return, consumers were more dependent than before on buying their wine at food retailers or online.



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3) Closure and restriction of HoReCa

The restrictions imposed by Covid-19 mainly affected restaurants and hotels, 77% of which, according to the results of the survey, had to close down at least temporarily. The hygiene measures imposed led to higher operating costs, restrictions in the services offered, lower occupancy rates and declining turnover for more than 60% of the restaurants and hotels. The whole sector suffered and still suffers from the almost complete cancellation of private and public events and festivities.

Compared to restaurants and hotels, the wine trade was much less affected, with only 25% of businesses having to close and/or suffering a loss of turnover. On the other side, 38% of wine retailers reported increased sales since March 2020.



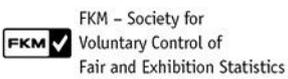
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Business effects - Retail and on-trade



How was your business affected by Covid-19?
% of trade who stated strong or very strong effects



Hotels and gastronomy were more strongly affected by closures (77%), higher operational costs (65%), lower revenue from limited occupancy (64%) and reduced tourism (41%) than specialty wine trade.
For 38% of specialty wine retailers demand increased, but only for 11% of restaurants and hotels.
Both were similarly affected by limitations in offers (-70%) as well as reduced events and festivities (-75%).

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4) Economic consequences for HoReCa

Hotels and restaurants have been hit hardest economically by the closures, hygiene measures and the collapse of tourism. For about 80% of the businesses, the economic situation has deteriorated due to Covid-19, 30% of which deteriorated very strongly. Starting from a positive level in 2019, the economic situation of hotels and restaurants has thus fallen drastically to the most negative value of all examined sectors of the wine industry. In contrast, the current economic situation of the specialist wine trade is the most positive of all sectors, even if it is declining compared to the previous year. Wholesalers and importers lie between the two extremes with a significant decline but largely satisfactory economic situation.

Effect of Covid-19 Retailers



How did Covid-19 affect the economic condition of your company?
% of respondents, Saldo is difference between share improve and share deteriorate



	significantly deteriorate	deteriorate	no change	improve	significantly improve	Saldo
Specialty retail	7	34	27	25	8	-9
Importer, distributor	13	47	20	16	4	-40
Wholesale	16	47	15	17	5	-42
Hotel	34	41	14	7	3	-66
Gastronomy	30	52	9	7	2	-73

Gastronomy and hotels were most strongly affected by Covid-19 through closures and a significant reduction in tourism. In contrast, every third specialty wine retailer could benefit and experienced an improved economic condition. The majority of importers, distributors and wholesale were negatively affected; particularly those with a sales focus on gastronomy and hotels. Intermediaries that focus on food retail and online retailers benefited from the tectonic changes in the importance of sales channels.

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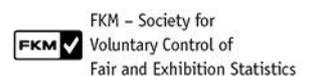


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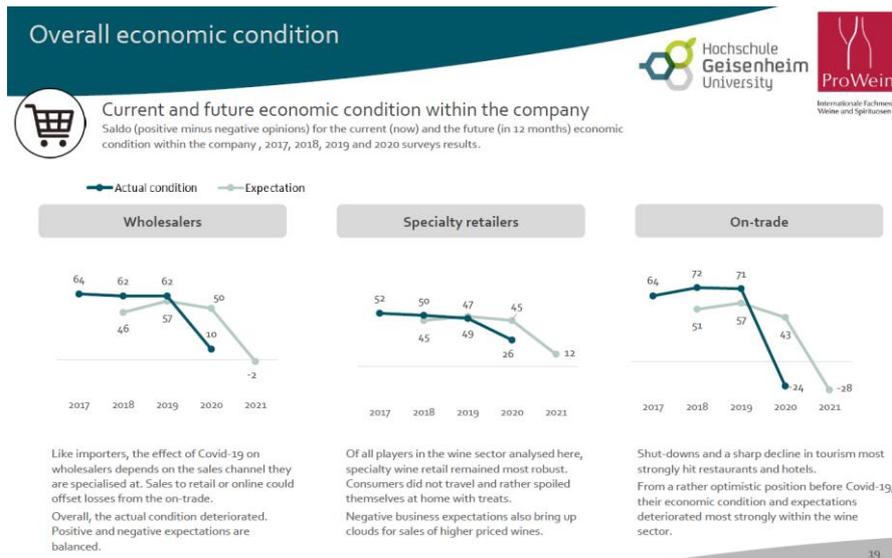
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5) Economic consequences for wine producers

Overall, the majority of international wine producers were negatively affected by the Covid-19 related changes in sales volumes. Through their listing in the food retail trade, larger producers in particular, such as wineries and cooperatives, were able to compensate for part of their losses. Nevertheless, almost 60% of the businesses reported economic losses due to Covid-19. 70% of the smaller wineries, which depend even more from wine tourism and gastronomy, have seen their economic situation deteriorate due to Covid-19. Even though the wine producers have increased their sales via online channels, these were based on a very low starting level and for most of the wineries they, by far, could not compensate the losses from the important sales channels of gastronomy, export and wine tourism. Mediterranean wine producers in particular lack easy access to consumers in Central and



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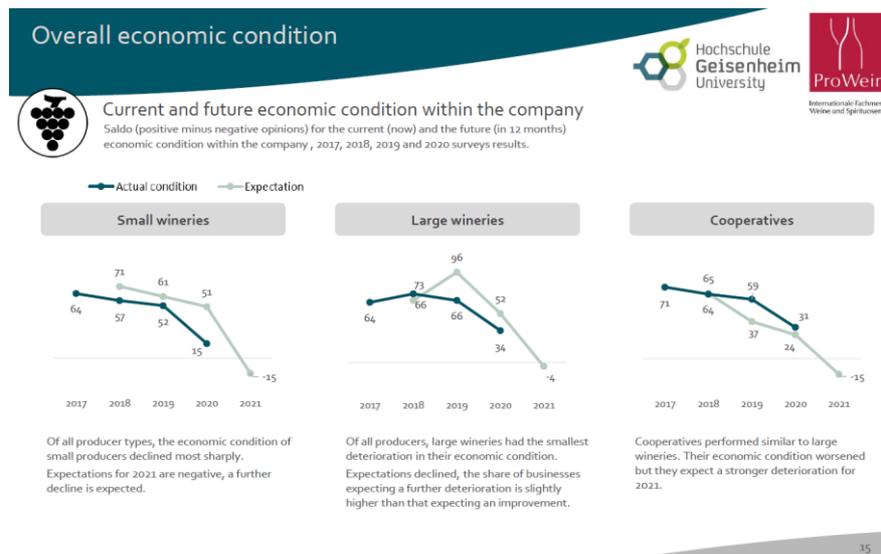
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Northern Europe due to the regulation of intra-European online trade in wine.



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6) Exports down due to global impact of the pandemic

Due to the global scale of the pandemic, sales channels have shifted virtually simultaneously in all wine markets of the world. As a result, there was a strong negative feedback loop on wine exports from the three main producing countries, with France and Spain already affected by additional import tariffs to the USA since October 2019. Italy's export loss was smaller due to the exemption from the import duties.

Besides the USA, import markets such as China and Hong Kong were particularly affected by the declines. There, private wine consumption is still relatively low and wine is consumed mainly on special social occasions, which no longer took place due to Covid-19. Exports to countries such as the Netherlands or Switzerland, where wine plays an important role in the gastronomy sector, also declined in 2020. The prospects for a recovery in exports in 2021 are modest.

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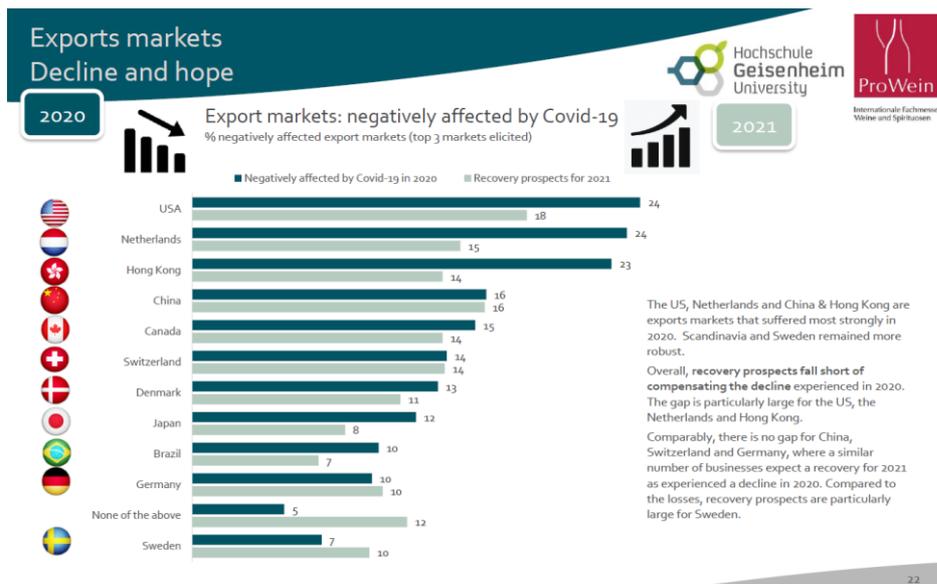
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Reactions from businesses

7) Online communication is booming

As a result of the crisis, both producers and retailers completely realigned their marketing with a very strong focus on all online channels. 60% of the wine producers and about 50% of the retailers as well as hotels and restaurants intensified the communication with their customers via social media (Facebook, Instagram etc.). Every third wine retailer placed online advertisements. Almost every fourth winery and every fifth wine retailer conducted online tastings to reach their clients and customers during the lockdown. Likewise, every fourth winery and every tenth wine retailer opened a new, company-owned online store.

8) Wine producers focused on direct consumers and looked for new sales channels

Sales to direct customers could be increased for 44% of wine producers – specifically through special offers with discounts (46%) and increased customer activation via newsletters (40%). Every fourth wine producer tried to profit from the sales increases in the food trade and online trade by negotiating new listings there.



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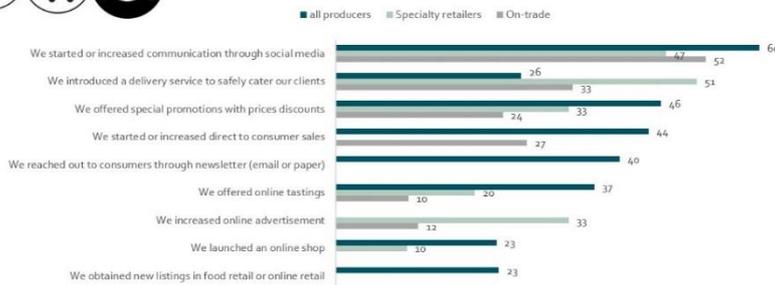
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Marketing reactions – producers and trade



In your marketing, how did you react to the changes and restrictions?

% of producers, specialty retail and on-trade (gastronomy and hotels)



Communication and targeting direct to consumer sales were the most prominent reactions by producers. They started to use new (to them) tools such as social media communication (60%), online tastings (37%) or new online shops (23%). Every fourth producer entered new sales channels such as food retail and online retail (23%).

Gastronomy and hotels are considerably more limited in offering or shipping their services online compared producers. Online tastings and online shops were therefore less often used. Every second specialty wine retailer and every third restaurant set up delivery services to their clients. Online communication and advertisement increased when businesses could reopen after the first lockdown.

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9) Delivery service as the safe means of the hour

According to the motto "if the consumer can't come to the wine, then the wine comes to the consumer", every second wine retailer, every third restaurant and every fourth wine producer offered a delivery service for their products. This enabled a contactless and safe delivery of the goods without wine consumers having to leave their homes. For restaurants, however, this delivery service was only able to compensate for a fraction of the revenue, as the ambience, flair and service of a restaurant visit cannot be delivered to the customer's home.

10) Cost reduction necessary and public aid programmes used

80% of the businesses negatively affected by the crisis had to reduce their expenses and costs in order to survive economically. Half of the businesses postponed planned innovations and investments. Four out of ten companies used public aid programmes, also to be able to continue paying employees. One producer in five was forced to lay off employees. One in ten producers surveyed took part in crisis distillation, which was intended to remove excess quantities from the market in many countries (except for countries such as Germany where crisis distillation was not permitted). Across Europe, around 10 million hectolitres (more than one German annual harvest) were stored or distilled as part of the crisis measures taken by the European Union.

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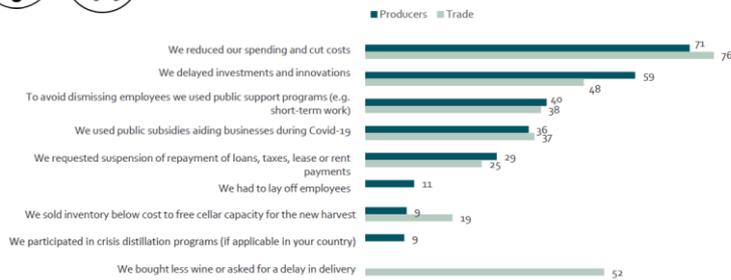
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Business reactions – affected negatively by Covid-19



On the business side, how did you react to the changes and restrictions?

% of all producers and trade that were negatively affected by Covid-19

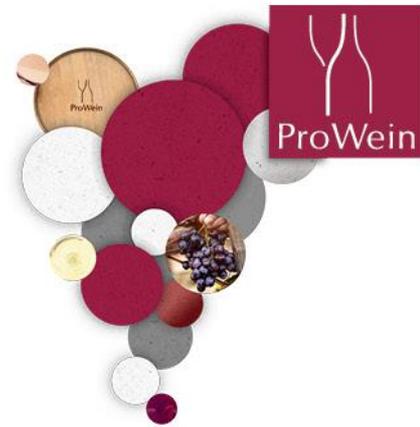


Those businesses affected negatively by Covid-19, reduced spending and cut cost. Six out of ten producers delayed investments or innovations they had planned. Every second trade business bought less wine. One in ten producers participated in crisis distillation (if applicable) or sold inventory below cost to make room for the new harvest.

Four out of ten producers and trade businesses used public support programs, also helping them to keep their staff. Nevertheless, one in five trade business had to lay off employees.



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Change in consumer behaviour

11) Consumers spoiled themselves with wine

During the lockdown, retailers observed a higher willingness to spend money among consumers, who for instance treated themselves to a special wine as compensation for their cancelled trip abroad. Due to the fact that many consumers spent their vacation at home this year, they also turned more often to local and regional wines. The demand for sparkling wine suffered particularly from the lack of social occasions and celebrations to which it is normally drunk.

12) More price-sensitive customers expected in the future

The expected negative economic effects of the Covid-19 crisis will also weigh on consumers' disposable income in the future. The wine trade therefore expects wine buyers to be more price-sensitive in the future, but at the same time hopes for an increase in demand for regional and sustainably produced wines.

13) Only slow recovery of gastronomy and exports expected

Experts unanimously expect a slow recovery for the restaurant and hotel industry. The majority expect further restraint and caution on the part of tourists even after the crisis, and only one in three hopes for a rapid and strong increase. Therefore, hotels, restaurants and their wine suppliers still require a great deal of persistence to bridge this phase and survive economically. Every third expert is optimistic and expects a complete



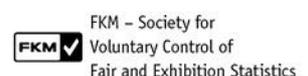
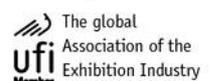
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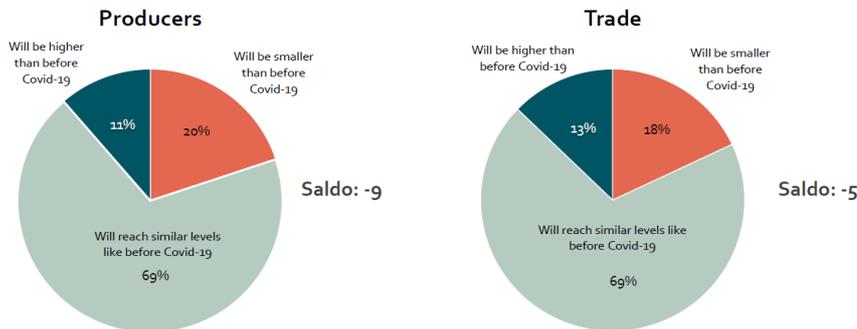


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recovery of wine sales in the gastronomy sector after Covid-19, which also offers opportunities for new innovative business concepts.

Expected future global wine demand

What are your expectations for global wine demand after Covid-19?
In % of respondents.



Overall, seven out of ten expect the global wine demand to reach similar levels like before Covid-19, both for producers and trade. The share of those expecting a decline is larger than that expecting an increase. Producers are slightly less optimistic than trade.

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14) Demand from the wine trade slightly lower

Four out of ten purchasers from the specialist wine trade, gastronomy and hotel industry intend to list and purchase new wines from new producers in 2021. On the other hand, one in three trade businesses feels compelled to buy less wine next year due to necessary cost savings and reduction of tied capital.

Expectations for the future

15) Sustained effect of shift in sales channels expected

The experts agree that online trade in wine will continue to play a very strong role after the pandemic. Similarly, respondents believe that wine sales via food retailers will emerge stronger from the crisis. One in three also expects premium wines to be sold via food retailers in the future.

16) Future demand for wine expected to be slightly below the previous level

For the post-Covid-19 period, one in seven experts expects a recovery in demand for wine to the previous level. The proportion of respondents who expect an incomplete recovery is slightly higher than the proportion who expect wine demand to increase. The wine trade, with its focus on Central Europe, is slightly more optimistic than wine producers with their focus on Southern Europe. Wine producers from Germany and the New World, as well as wine retailers, expect demand for premium wines to be stronger after the



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crisis than before it. The expectations of wine producers from Southern Europe for premium wine are rather subdued.

Future strategic adjustment of the wine sector

17) Digital transformation of the wine industry accelerating

Companies from all parts of the wine value chain agree that digitisation will play a much stronger role in the wine industry. Even though there are still legal hurdles in cross-border online sales between EU countries, two out of three experts agree that in the future producers will focus more on their direct digital marketing. Also, 56% of retailers plan to increase their spending on digital marketing and more than one in three want to invest in new ways to reach their customers more effectively (digitally). In addition, the advancement of digitalization in wine production will continue to accelerate and experts agree that the Covid-19 crisis is unlikely to slow down this process.

18) Covid-19 accelerates structural change and diversification

In the view of the experts surveyed, the sudden collapse of important sales channels and export markets is likely to result in wine producers having to diversify more to reduce their dependence and the risk of individual channels and markets. This will only be possible through further business growth or partnerships that allow further specialization in the sales area and ensure the necessary sales volume. Two out of three producers surveyed expect the Covid-19 crisis to have such a negative impact on the industry that some of the producers will not survive economically. This will lead to a further acceleration of the ongoing structural change, which will result in fewer but larger businesses.

19) Covid-19 slows down sustainability movement in the industry

The last ProWein Business Report 2019 made clear that escalating climate change has led to a growing commitment to sustainability in the wine sector. However, the majority of measures to protect the environment require investments by the businesses. Covid-19 has already led to the postponement of investments and has attacked the economic substance of many businesses necessary for measures to increase sustainability. Three out of ten experts therefore fear that producers will not be able to increase



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their environmental sustainability and adapt to climate change as quickly as necessary.

The study was carried out on behalf of ProWein by the Department of Wine and Beverage Business at Geisenheim University headed by Prof. Dr. Simone Loose and her team. ProWein and Geisenheim University look forward to continuing the success of the ProWein Business Report over the coming years. By publishing this report ProWein provides the wine industry with a unique market barometer for a long-term sample period and addresses key issues in the industry with annual focus themes. We thank those who participated in the survey and hope for continued active participation of wine producers and marketers going forward.

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