South African (SA) wines present something of a puzzle when we consider their performance in the United States. The country is a significant producer and exporter of wines, which have received considerable praise in recent years from U.S. critics, yet these wines have struggled to gain a foothold among U.S. consumers. This contrasts with the success that wines from other Southern Hemisphere producers such as Australia, New Zealand, and Argentina have achieved in the U.S. This paper attributes the underwhelming performance of SA wines in the U.S. market to the inability of the small, independent wineries that characterize the industry to establish strong relationships with importers and distributors.

South Africa was the world’s 9th largest producer of wines in 2011, ranking just below Australia and Chile, with a total output of about one billion liters, and it is the world’s 8th largest exporter, just ahead of Argentina. South Africa’s rise as a wine-exporting country has largely occurred in the nearly twenty years since the end of apartheid. The opening of world markets to SA wines and the removal of the KWV’s control over the country’s wine-grape cultivation led to a surge in independent wineries focused on making high-quality wines for international consumers. The number of wineries has tripled since 1995 from fewer than 200 to
nearly 600 and the percentage of production exported has increased from just over one-tenth in the mid 1990s to more than one-third today. Most of the new wineries are quite small, however; over half crush less than 100 tons of grapes a year and more than two-thirds crush less than 500 tons.

Europe is South Africa's primary export market for wines. Just five percent of the country’s wine exports go to the U.S. (which is only slightly above the percentage sold in Canada, although the U.S. has nine times the population), despite concerted efforts to boost U.S. sales in recent years. This paper argues that this lack of success reflects a networks failure. The U.S. wine market is not a true market, but is a series of 50 state-based distribution networks functioning within the three-tier system that was introduced in the U.S. after Prohibition. The mostly small SA winemakers lack the means, influence, and expertise needed to push their wines through these networks, resulting in just a handful of these wines reaching retailers’ shelves.

Data

The data used in this analysis came from three sources. First, I interviewed ten importers of SA wines into the U.S. and 29 wine producers (interview data). Second, two research assistants and I visited 80 liquor stores, all known to sell SA wines, in the Atlanta metropolitan area and Orange County, California, between March and July 2012 to determine which wineries were represented in their SA selections (store data). Third, I compiled a record, based on data collected from the
Internet, of all importers of SA wines and the wineries that they represented (import data).

Results

Preliminary analyses of the store data and import data illustrate the difficulty that South African wines have in penetrating the U.S. market. They also show that being a top-rated SA winery offers no guarantee of success in this market. Take, for instance, the 53 wineries that have received at least two Platter’s “Five Stars” awards over the past five years. Most of these wineries have a U.S. importer (only ten either had no importer or none could be identified), but 30 of the 43 wineries with an importer had no wines on the shelves of the liquor stores we visited. Just six wineries, from the elite tier, were in one-fifth or more of the stores and only one of these wineries was in half of them.

If we consider all SA wineries, not just the award-winners, we find a similar pattern of a handful of wineries achieving widespread store representation while most had little presence. Wines from 83 wineries were on the shelves, but only 13 wineries were in one-fifth or more of the stores. In contrast, 45 of the 83 wineries were in either one or two stores only. Broadly speaking, therefore, the experience of SA wineries in the U.S. can be categorized as moderately successful, minimally successful, and unsuccessful.

The import data highlight a second and related feature of SA wines in the US market: producer-importer ties are short-term and tenuous. The ten importers I
interviewed represented 97 different SA wineries in September 2009; 38 of these wineries were no longer with the same importer in February 2013. Some had left the market, but most had simply switched importers. Much of this churning is due to wineries seeking importers who they believe will represent them better.

Discussion

My initial analysis suggests that the wineries that have the most stable relationships with importers are the most successful (although it is difficult to determine whether stability causes success or vice versa). But data from the interviews indicate there are four main impediments to the formation of stable relationships between producers and importers. First, there is opposition from other producers; wineries compete at the varietal level at specific price points and they do not welcome an importer adding a winery that targets the same niche of the market. Second, both producers and importers fail to invest time and effort in building and maintaining their relationships, instead blaming the other party when problems develop. Third, producers and importers’ interests do not necessarily coincide: importers may be producers as well, they may concentrate their attention on wines that are easy to sell, or they may shift their focus to wines from other countries, and producers are easily tempted to switch importers if presented with a perceived better opportunity. Finally, importers may be unable to develop effective relationships with distributors, leading these wines to get stuck in the infamous distribution bottleneck that characterizes alcohol distribution in the U.S.