

A NEW WINE EXCHANGE

Although bulk wine doesn't get its share of attention, it's big business. And now, finds Robert Joseph, someone has built a bulk wine exchange.

Three well-known wine writers were discussing their travel plans, when one of them mentioned that he was going to be in Amsterdam for the Bulk Wine Fair.

"The what?" the others retorted. Not only had neither of them ever heard of the exhibition, they'd never imagined such an event. For many in the wine industry, bulk wine barely exists. And yet not only does 2016 mark the eighth birthday of the World Bulk Wine Exhibition, but this was also the year that VINEX, the world's most ambitious dedicated digital bulk trading exchange, was launched. Now buyers and sellers of tanks full of wine can find their ideal match online almost as easily as users of digital dating sites.

Quick birth

Australian-born Denys Hornabrook, VINEX's founder and managing director, has 24 years of experience in the wine industry, including nine years with Australian bulk specialists Kingston Estate. He admits that he was not the only person to come up with the idea. "My three partners were working in

other parts of the agricultural sector and saw an opportunity for a new service focused on wine."

Considering the complexity of its ambitions, the business was set up quite speedily - in under two years - with an investment of around \$1.6m, little of which went on software writing. "We were able to use off-the-peg programs for a lot of what we wanted to do, but it is a high-risk venture, so we spent a lot of time talking to 16 high-level industry advisors before the launch to make sure the business resonated in the industry," says Hornabrook. "It's early days, but so far, we're staggered by the interest we're getting." Recently, Hornabrook continues, a UK retailer described the VINEX presentation as "one of most interesting meetings he'd had in a long while".

VINEX's timing was good. In 2015, Jean-Claude Ruf, the scientific coordinator of the OIV, released 2014 figures showing that nearly 40m hL of wine - around 38% of global exports and 14% of production - was being exported in bulk. Up to a further 60m hL are traded internally within markets, along with unrecorded volumes of grape must and concentrate. In total, Hornabrook estimates



A LIVE MARKETPLACE FOR WINE PROFESSIONALS

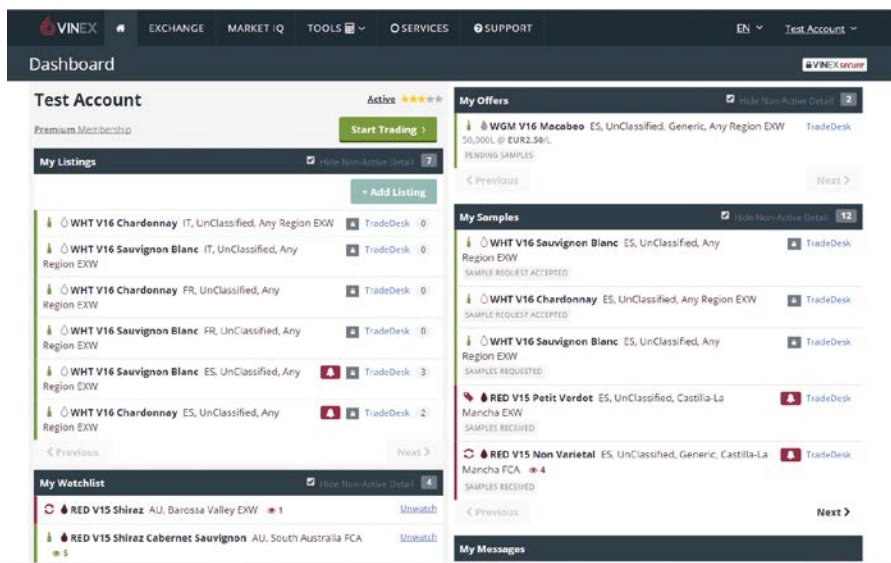
that at least a quarter of the world's wine is traded in bulk - a proportion that is growing. In a 2013 report, Rabobank estimated that bulk wine sales had been swelling by 6% annually for the previous six years and were expected to continue to do so at the same rate.

What's driving growth

Hornabrook explains that the bulk market is being driven by a number of factors. First and most important is the increased sophistication of Flexitanks. That plus the quality control standards at in-market bottling plants have meant that differences are hard to discern between wine bottled at source versus bottled for customers on the other side of the planet, apart from the greater freshness in the latter. "We've just spent ten days in China, where we saw all the major companies," says Hornabrook. Bulk imports are growing, up from 15m L in 2014, and the industry is clearly gearing up for growth. "I've never seen so much new bottling-line equipment sitting in dedicated facilities, ready to be used."

Apart from the costs that cut by bulk shipping, holding stock in tank and bottling on demand have also brought additional savings. These can be crucially important to customers such as supermarket chains, faced with growing competition from low-margin discounters.

The rise in the discounters' market share in Western markets has also helped to build the demand for own- and private-label wines which are classically sourced in bulk. Hornabrook says that while strong brands will always be beacons to attract customers, he is "seeing a need from retailers to maintain margins using private own-labels whose price



The VINEX dashboard

can't be measured." A lot of this business is happening in China. "Wine is a luxury middle-class symbol and professional buyers there are becoming more worldly, thanks to free trade agreements," says Hornbrook. "They try to buy brands like Penfolds to get credibility, but the volume is all about virtual brands."

Bulk suppliers – from specialist suppliers to producers who need to dispose of excess stock or unfilled orders – are becoming a lot more skilled at offering potential buyers what they are looking for. "There are quiet achievers who don't draw a lot of attention, but have access to a broad acreage of warm-climate grapes, and are actually very large in terms of volume and turnover contracts," says Hornbrook. But, he adds, "there are also more premium producers that protect their core brands by setting up subsidiary companies that trade bulk wine."

Until now, most bulk trading business has been handled by brokers like the Ciatti Company, which, despite their efficiency, admit to being stronger in some markets than others. This is relevant at a time when consumers are happy to buy Pinot Grigio under the same brand from Italy, Australia, Hungary or Romania, provided it tastes more or less the way they expect.

VINEX aims to be truly global in its scope, and, rather than compete with traditional brokers, to work with them by allowing them to offer wines on the exchange. Brokerage fees (of between 1% and 5%) on successful transactions are then shared equally between VINEX and the broker. As Hornbrook says, "We are a very young business, but we already have brokers using it as a tool to find new buyers. They all have inventory that's slow to move."

How it works

Buyers and sellers register at no cost, and can then make and respond to offers. As simple as that sounds, the back-end of the business involves due diligence to ensure

the integrity of the businesses concerned. "We have nine different trading methods, operating across six different languages," Hornbrook explains. "We're finding that different companies have quite different priorities and requirements. So, we've traded everything from 20,000 litres of Barossa Shiraz up to a million litres of Spanish Tempranillo, and from wine for distillation up to reds at \$8.00 per litre."

He says that since the exchange went live at ProWein on 1 March 2016, it has picked up nearly 500 users in 32 countries, "from Kosovo to Chile and California. There are small companies and very big ones that have quietly joined without actually talking to us."

Anonymity is a major part of the service.

Neither side knows who they are dealing with until the transaction has been agreed – at which point some interesting discoveries may be made. "We are seeing a lot of activity from retail buyers," Hornbrook says, pointing out that his service offers supermarket chains the chance to see how low a price some of their existing suppliers might be prepared to accept. "They say that the exchange empowers them." He is, not surprisingly, unwilling to discuss specific customers, but it is possible to imagine a situation where a UK retailer unknowingly buys wine via VINEX from one of the big New World suppliers it already does business with – but at a lower price – only to have it bottled in the same plant as its other wines from that supplier.

The heart of the VINEX business lies in the 'dashboard', where sellers can choose between five methods of offering their wine, ranging from auctions – popular among vendors desperate to offload stock – to swap offers, where a user with excess Pinot Grigio and a need for Merlot, for example, can seek a trading partner with the reverse situation. Like an online dating site, VINEX allows for an array of characteristics and aspirations. Producers can specify the markets they wish to deal with, and demand



ISO certification, for example, or they can insist that the buyer has credit insurance.

Just as human beings eventually have to have a face-to-face meeting before an online relationship moves onto another level, bulk buyers get to taste samples of the wines they are being offered. This process is both automated and anonymous, as producers send bottles to an appointed freight forwarder who aims to get the wine to the would-be purchasers within 48 hours of it being requested. To assist buyers in understanding the quality of the wine on offer, vendors are invited to classify their wines on a scale of one to five. Alternatively, they can pay for an independent assessment by an expert appointed by VINEX.

One obvious role for VINEX would be to provide the kind of regularly updated FT/Dow/Nikkei-style industry price guide that Liv-ex offers for fine wine. "We would love to grow to the stage where we report the market data as it comes through," Hornbrook says, before admitting that, after six months, volumes aren't yet big enough. "But we've had data providers wanting to partner with us. It's just a matter of growing to a size where the error factor is small enough for us to be able to publish."

With just eight full- and part-time employees whose tasks include scouting for parcels of wine as well as sourcing new customers, VINEX is focusing its recruitment on large companies. "We have a database and pretty much know the major players, and we're approaching the ones that are doing 70% of the bulk business." Hornbrook claims that 80% of his meetings with these companies lead to them joining the exchange.

At this rate, and assuming the market continues to grow, it won't be long before even the wine experts have to acknowledge the importance of bulk. The greater likelihood, though, is that it will remain a trade secret. ■



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