

Special Report

LIV | EX
THE FINE WINE MARKET



The changing nature of fine wine buying

Executive summary

This report explores the habits and opinions of fine wine buyers worldwide, and some of the challenges they face. It draws upon an exclusive new survey, conducted by Liv-ex, amongst our global merchant membership. It examines the relative strengths and weaknesses of their preferred buying channels and the increasingly important role of technology in the trade.

Our main findings include:

- Buying direct from producers remains the most favoured buying channel amongst buyers, who are highly price-conscious
- Buying from other wine businesses can improve access to more wines, but squeezes margins and increases risks
- Opinion is divided on whether En Primeur remains the most important wine buying event of the year
- Buyers see the efficient settlement of trades as a major challenge
- Most merchants expect producers to sell more of their wines direct to consumers (DTC) in the next five years, creating more competition
- Technology is making it easier for buyers to source more fine wine from more sources – a trend they expect to continue.



The role of the fine wine buyer

There is a certain romance that surrounds fine wine buying. It can conjure up images of driving around the French countryside, visiting sloping vineyards, descending into cellars that smell of earth, oak and new-born wine, private tastings and of dinners in 17th century estates. Kermit Lynch writes about it in his famous book, "Adventures on the Wine Route", telling tales of a wine merchant in France searching out great wines and of talented winemakers, experiencing the passions, beliefs and disappointments of growers and negociants.

But behind this, there has always been a complex commercial side to sourcing wine. Fine wine buyers must consider supply, price and profit margins, provenance, logistics, and their increasingly well-informed clients. They also need to know the relative strengths of many more buying channels open to them; a number that is growing rapidly as technology evolves. These channels come with different opportunities and levels of risks when sourcing wines.



Producer-direct remains buyers' favoured route

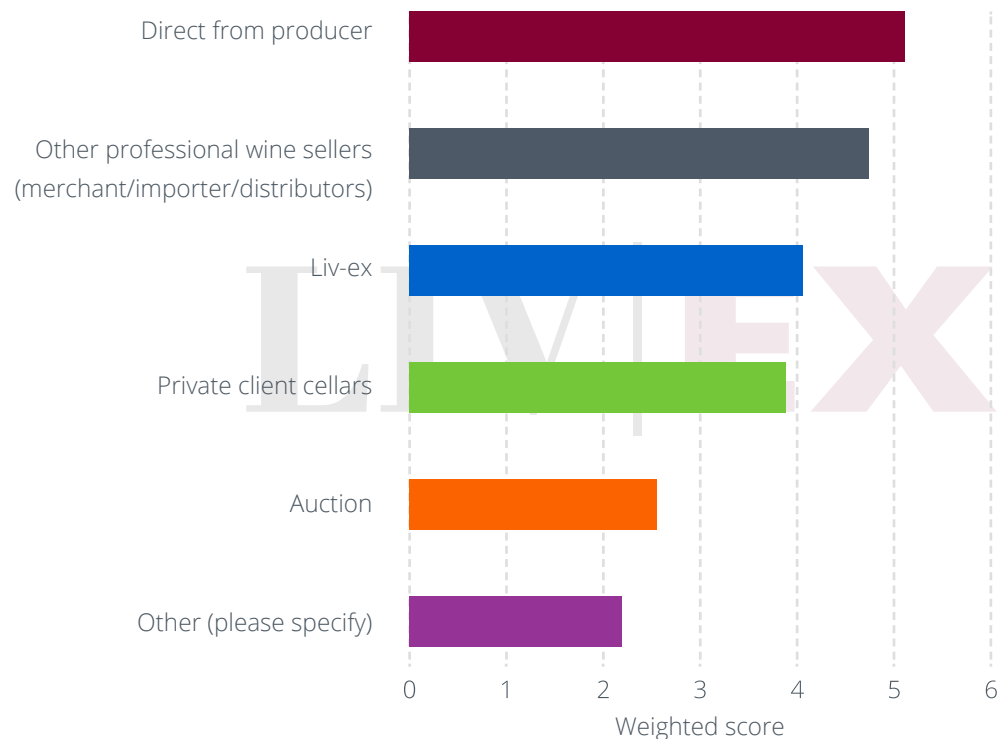
Almost 50% of merchant buyers surveyed say that sourcing wine directly from the producers is their favoured option.¹ This channel meets the two most important requirements they list: price and provenance. In a hugely price-sensitive market, going direct can offer better margins. At the same time, provenance, is guaranteed for such wines.

Their second preference is buying from other professional wine sellers, such as importers and distributors. While this option gives greater access to more wines, it often comes at the cost of smaller margins. Around a third of buyers surveyed list Liv-ex, the global marketplace for the wine trade, as their first or second choice for sourcing fine wine.

Buying from private client cellars comes forth. Buying at auction is their (distant) fifth choice route.

While together these channels make for a complimentary buying strategy, individually they can present both challenges and opportunities for the wine buyer of today (and tomorrow).

Which are your preferred channels for sourcing wine?



¹ Liv-ex surveyed 85 buyers amongst our membership of 475 wine businesses globally. The online survey ran in September 2020 and one respondent won a bottle of wine in a random draw.

Going direct: higher margins and provenance

Buying wine direct from the producer is the oldest method, upon which the wine trade and the rest of the supply chain is based. As our survey reveals, this primary market remains the most popular option amongst buyers for two main reasons: guaranteed provenance and the highest potential profit margin. Cutting the middleman out of the three tier-system (producer, distributor, buyer) and going direct – in states and countries where it is legal – often means paying less. Most distributors work on a 28 to 30% profit margin depending on buying power and relationships with the producers.

Most of those surveyed agree that this channel presents them with the ability to discuss price and terms whilst involving less bureaucracy. A buyer from [Advisorin](#), a wine merchant based in Italy, told us that they “like sourcing wines through the producer because of the personal relationship, economic advantages and special treatment”. When asked about their top tip for sourcing wine efficiently, they said:

“Visit wineries and take part in professional wine tastings in order to exchange opinions with a network of people from the world of wine”.



Other respondents noted that establishing a close relationship with the estate owners can be a reward in itself, which helps with ongoing business. As [Wine Spectator](#) puts it, going direct over-delivers in a “relationship-building capacity”, with longer-term partnerships where contracts and allocations are negotiated taking much of the risk out of price fluctuations.

However, one London-based merchant points out that while this method typically allows them to make the most money, there are other considerations in play such as ease of doing business and speed. Buyers looking to source directly from the producer often need to arrange the logistics themselves, incurring additional costs in doing so. Obtaining an allocation of desired stock can also be time-consuming. Obviously, choice is limited to each producer’s offering, meaning that merchants must work with multiple producers, adding more time and more cost to the buying process. Moreover, some wineries work exclusively with agents and importers.



Middlemen: greater choice comes at a cost

26% of those surveyed choose to rely on other wine professionals when it comes to buying fine wine. This option opens up a greater variety than dealing directly with a limited number of producers; more wines, more regions and older vintages. But relationship-building is vital. A London-based merchant said that “it is all about building trust with the supplier”, while another respondent pointed out that “prices can be competitive provided you have long-term relationship with them”, adding they might even offer “free delivery and storage”. Some merchants also appreciated confidentiality, immediate availability and convenience. However, buyers looking for a wider array of wines must be prepared to work with a range of suppliers and manage a lot of collection points. Any slowdown in the supply chain like longer shipping times and late deliveries can have a damaging impact on their turnover and profitability.

Agents and importers

In most of the US, the model of buying from a separate agent or importer is legally required; elsewhere, it is a choice for the winery to work with a representative who distributes to other markets. On the sell side, this method offers the producer greater reach and greater simplicity. By working with multiple clients, agents and importers can respectively offer greater diversity to their merchant clients, while locking in good value deals. A French retailer who ranked this as their top choice attributed it to the “big range of wines” on offer and “prices that allow them to get their margin”.



Other wine merchants

B2B trading (buying from other retailers) is a highly regulated concept in most of the US but relatively common in Europe. Provided the buyer knows and trusts the seller, sourcing from other wine merchants can be a good option for back-vintages and interesting wines. However, it can be time-consuming to locate the right stock at the right price, especially in a constantly diversifying fine wine market. Arranging logistics is another lengthy and costly task, especially when the desired stock comes from abroad or when ordering on a smaller scale. Most logistics companies have a minimum fee, ranging from €150-€250 per shipment, regardless of pack size (i.e. it costs the same to ship one case as it does to ship two pallets). This makes shipping small quantities very expensive. The process becomes increasingly difficult when sourcing from suppliers based on a different continent or in a different time zone, often leading to increased admin costs and longer shipping times.



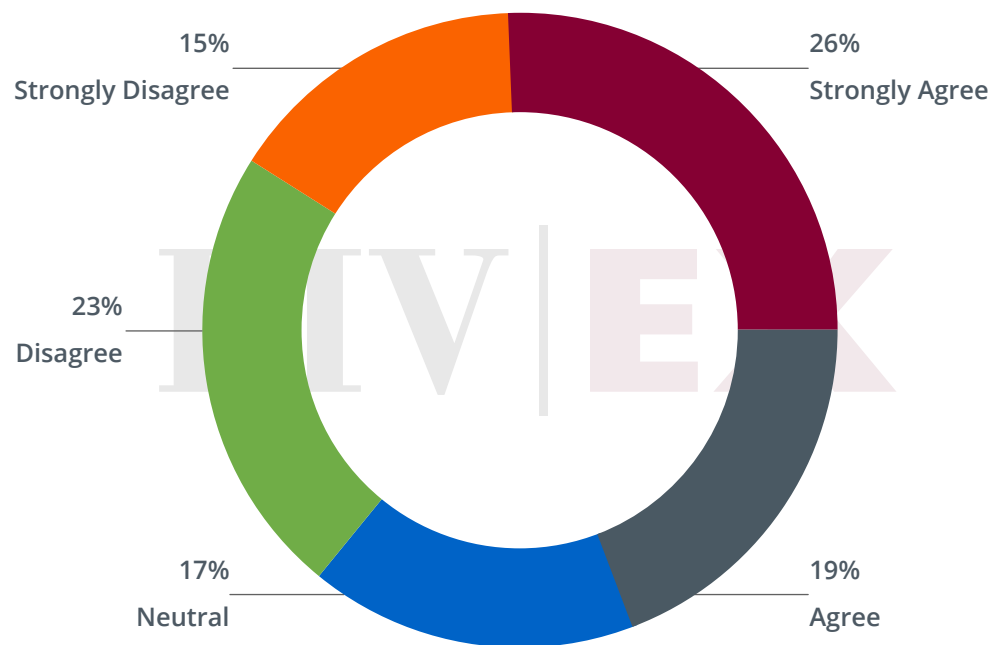
La Place de Bordeaux

La Place de Bordeaux is a distribution system, formed of layers of négociants, courtiers and châteaux, which has been around since the 17th century. Once exclusive to Bordeaux estates and their annual En Primeur spring release, today La Place is increasingly embracing the top wines of the world. One of the Rest of the World pioneers is the Californian Opus One, a joint venture between Robert Mondavi and Baron Philippe de Rothschild. In a [Liv-ex interview](#), David Pearson, CEO of the estate until earlier this year, explained the motivation behind this decision: “The négociants of La Place give us a broader visibility in markets around the world. The result is a more truly (sic) market demand-driven distribution of our wine”.

Merchants choosing to buy through La Place await the annual spring Bordeaux En Primeur campaign and the autumnal Rest of the World releases.

Buying through La Place holds an allure for various reasons i.e. securing a case of highly allocated wine and the assumption that buying upon release is a good investment strategy. When it comes to Bordeaux En Primeur, recent campaigns have demonstrated that these expectations are not always met. Between 1994 and 2005, the price charged by the chateaux represented 50% the wine's value by the time it was physically released. This left plenty on the table for negociants, merchants and collectors to profit. Since 2006, the chateaux's share has increased to 70% on average, increasing the risk for the rest of the chain and reducing the incentive to buy. Nowadays, merchants are divided on whether En Primeur remains the most important buying event of the year.

Merchant opinions are divided over En Primeur



To what extent do you agree with the following statement?

‘Bordeaux En Primeur remains the most important buying event of the year’

Private cellars: so long as the risk is managed

Filled with exciting discoveries and rare wines, the cellars of fine wine collectors can represent another reliable, albeit less conventional buying channel.

Most respondents who chose this option point to the same advantage: competitive pricing, allowing for better margins. According to one merchant, private collectors “accept lower prices”. Another told us that it is “easy to establish a fair price on both sides, as well as condition and provenance” when both the buyer and seller show willingness. Another key benefit is variety, with one respondent noting that “there are wines at the high and low end in most cellars”. A French retailer who only works with private clients said they have “broad access to their [clients’] cellars”, making purchasing “flexible and fast”.

Trust is essential for buyers looking to embrace this channel, which tends to be less regulated than the aforementioned options. Buyers might often find it hard to establish the storage conditions and the provenance of the bottles for sale. And while there are exceptions, private client cellars are also better suited towards single bottle purchases rather than for obtaining large quantities of stock. Buyers might also wish to consider consulting wine management companies, specialising in retailing collectors’ wines.



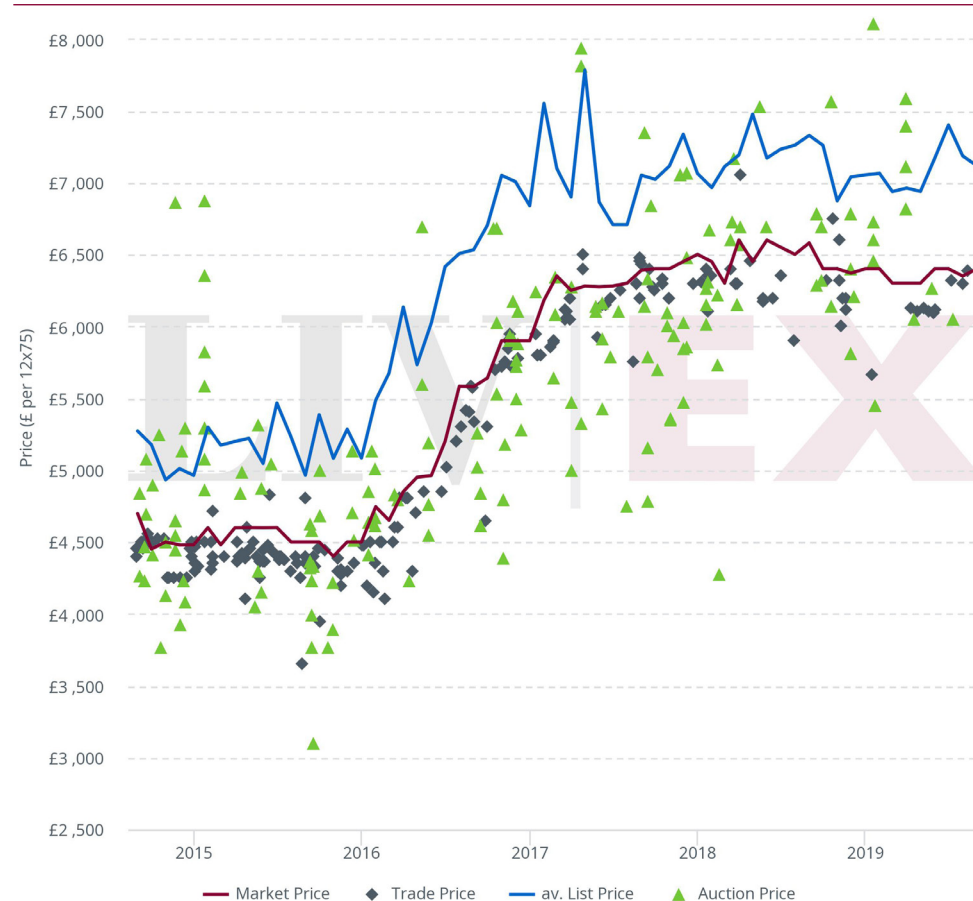
Buying at auction

Wine auctions through companies like Christie's, Sotheby's and WineBid are common sources of aged and highly desired wines. This method has built a strong following amongst private clients from Asia and the states. In 2019, buyers from Hong Kong and the US made up 51% of Sotheby's sales, with Taiwan and China following suit. However, auctions proved the least popular channel amongst professional fine wine buyers.

One of the challenges when buying wine at auction is establishing the 'right' price. Guide prices can often be broken at auction. In 2018, two bottles of 1945 Romanée Conti sold for US\$558,000 and \$496,000 respectively, smashing all previous records. The variance in auction prices is highlighted in the Lafite Rothschild 2006 chart, which shows auction data in green: on the same day, one case of Lafite Rothschild 2006 sold for £5,079 while another sold for £6,877, likely due to differences in condition.

Recently, online fine wine auctions have been gaining popularity. According to an article by [Decanter](#), they have more to offer than "big and expensive bottles". Expect "more frequent sales, with fewer lots and a lower overall value per lot (compared to live auctions)". There is more diversity too, with buyers finding wines "beyond the usual suspects". But whether online or live, the most common issue surrounding auctions remains the wine's provenance. Auctioneers cannot always verify the validity of the owner's claims. To try to avoid the misses, buyers are encouraged to research past auctions, familiarise themselves with secondary market prices and inquire about specific lots and potential future auctions.

Lafite Rothschild, 2006



— **Market Price:** The Market Price is the best listed price for a wine in the secondary market. Unless otherwise stated, it is standardised to 12x75cl. To find out more, [click here](#).

◆ **Trade Price:** Price at which the wine last traded on Liv-ex.

— **Average List Price:** Price at which the wine was listed by merchants.

▲ **Auction Price:** Price the wine fetched at auction.

Buying on the global marketplace

Around a third of buyers surveyed choose Liv-ex as their primary or secondary buying channel. Others favour it as part of a complimentary buying strategy i.e. going direct for future purchasing and buying from the global marketplace for a greater array of wines and vintages. Trust, price transparency and the diversity of wines on offer are the most common reasons listed by respondents.

According to one UK fine wine buyer, the Liv-ex trading platform offers “transparency, cost below market, reliable logistics and payment” whilst providing a “comprehensive view of market prices with good market depth information”. Members of Liv-ex recognise the fact that they gain exclusive market insights in the form of monthly reports, live opportunities, and extended data analysis. A Swiss merchant was also taken by “the price and the large number of wines offered”. The “breadth of offering” on the Liv-ex platform is currently 16,292 distinct wines (LWIN11). Buyers can choose from over £50.6m of confirmed stock, available at any time.

Another advantage appreciated by merchants is support. Richard Boyle of Vin-x explained: “I can talk to my Account Manager and his colleagues to negotiate the price of wine. They are also very helpful with tricky valuations and listings”.



Unlike other channels, buying on Liv-ex is completely anonymous: all merchant members are treated equally, seeing the same bids and offers, trading with discretion. Wine condition is checked internally in Liv-ex's temperature-controlled, secure warehouses. Standardised contracts mean buyers know exactly what to expect when their wine is delivered. The most-used contract (Standard-in-bond, or SIB) states that wine is in perfect condition, in bond, and available within two weeks. This contract vastly reduces the risk associated with buying direct from other merchants, private collectors or at auction, where the availability or condition of the stock cannot always be verified. Buyers can purchase wines from sellers on the other side of the world at the click of a button, with Liv-ex sorting everything from purchasing through to storage and logistics.

"Liv-ex is a one-stop shop. The ability to access investment-grade wines in one place saves us an enormous amount of time on cash collection and logistics".

BRUNSWICK
— FINE WINES & SPIRITS —



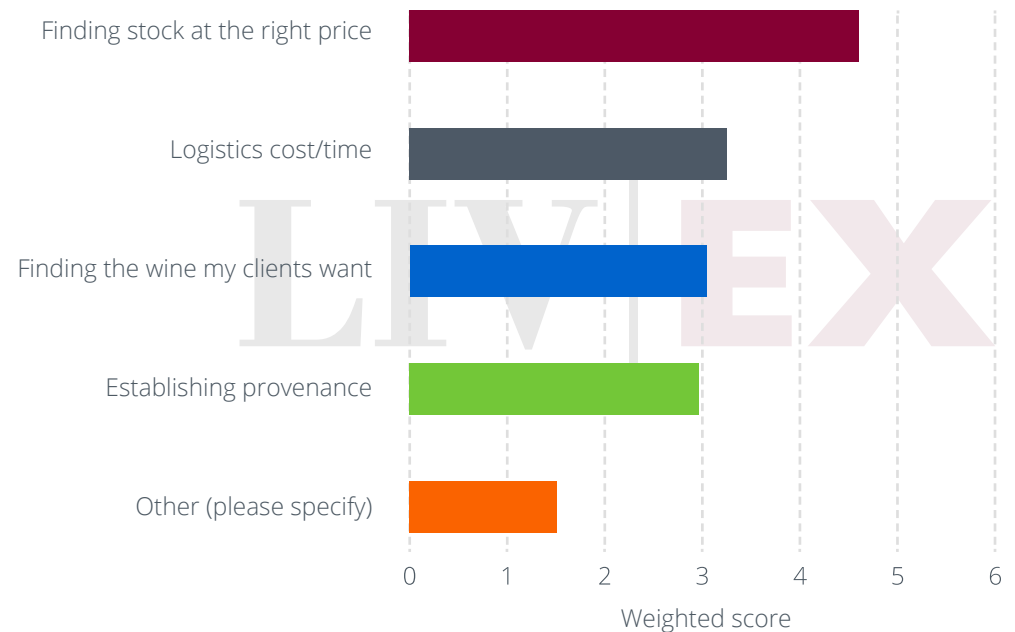
Buyers are looking for more efficient settlement

Second only to finding the right wine at the right price, the time and cost associated with logistics is a fine wine buyer's biggest obstacle. Considerable admin time and money are often spent coordinating payment, logistics, storage and quality checks.

However, trading on the global marketplace offers a route that effectively shortens the supply chain, making it easier for buyers to purchase from sellers around the world. Liv-ex has operations across the UK, Europe and Asia and a global transport network. Settlements of trades are charged at a per-unit flat rate (with no minimum quantity) and are coordinated by the Liv-ex logistics team. A 'per case with no minimum' model removes the need to consolidate purchases. By buying from hundreds of sellers in one place, buyers have only one invoice to pay and one collection point. Faster cycle time and lower admin costs allow a quicker turnover of stock and more profitable growth. This model looks set to become more attractive still to buyers faced with the same old challenges. To some, the commission and settlement fees can appear to inflate the overall purchase cost. However, they are lower in comparison to the associated time, cost and risks when settling trades in-house.

Different Liv-ex [membership options](#) are available dependent on desired market access, technology and data opportunities.

The most challenging thing when sourcing fine wine



Paying the right price

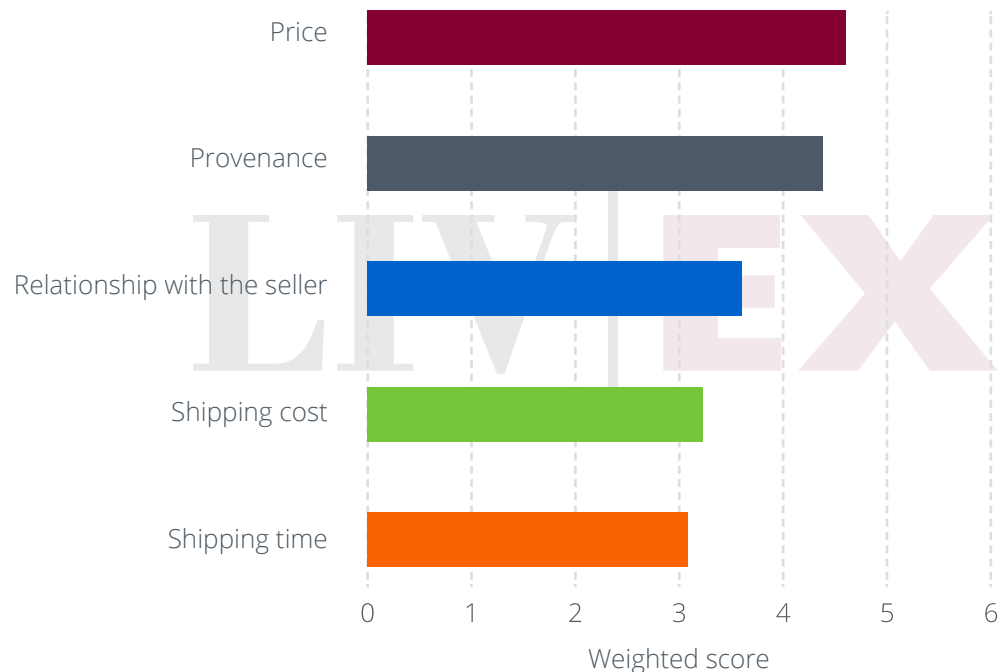
Merchants overwhelmingly identified finding wine at the right price as their key procurement challenge, and the most important factor when deciding whether to purchase any given wine.

Nowadays, professional buyers have several options when it comes to valuing portfolios accurately that can help them make informed purchasing decisions. The methods differ in cost, time and efficiency and are discussed at length in our report, [How to value fine wine.](#)

Free online searching

To ensure they are buying at the best price, Curry Pak, Purchasing Manager of Royal Orchid Wines in Hong Kong, recently told us that they compare “different merchant’s price lists and Wine Searcher”. Free online searching is a common strategy that works well for merchants who rarely need to value fine wines or are working with shorter lists. Experience is required to make good judgements about which price points can be trusted, particularly for old and rare wines. As there is a long list of factors influencing the price of wine, buyers need to make sure they are comparing like for like when valuing fine wine i.e. that the cost of a perfectly-stored case is compared to one in the same condition.

How important are each of these when deciding whether to purchase any given fine wine?



Detailed online searching

Online resources are also available to members of the wine trade that offer a greater depth of data and provide more accurate valuations. On Liv-ex, members can see transaction prices (bids, offers, last trade), and the Market Price. This is a good option when fine wine buyers only need to check the prices of a small handful of wines but want total accuracy.

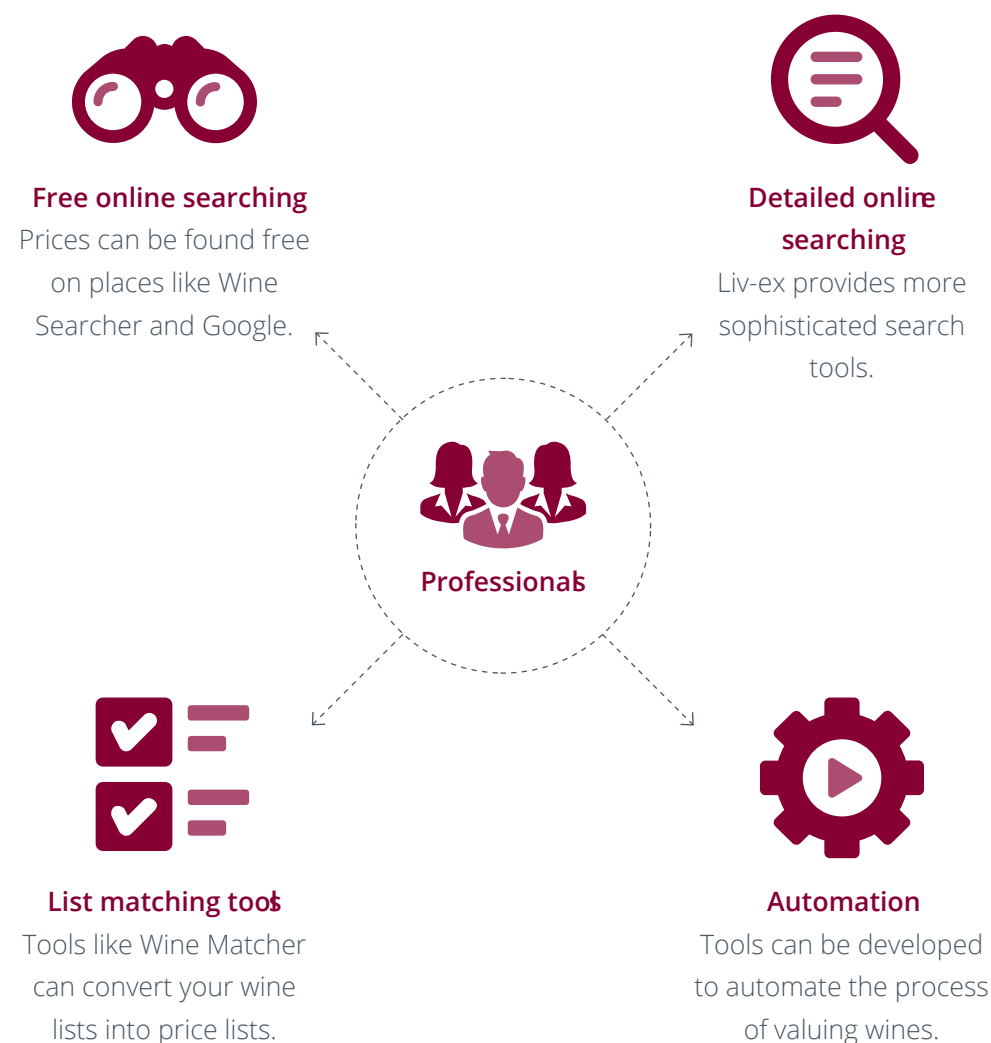
List matching tools

Buyers looking to quickly value a longer list of wines can take advantage of web-based tools like Wine Matcher that allows them to take wine lists and quickly add valuation information using actual prices transacted on the fine wine market. It adds accurate pricing data to the Excel lists uploaded to the tool. This is a good option for wine merchants that regularly require valuations, without investing in tech development..

Automation

Merchants can also get the right prices into their system automatically. Valuations can be generated and updated in real-time. This option, however, requires some investment in tech development. Free scoping sessions are available to explore the benefits and costs of automation.

Valuation methods for professionals



Current and future fine wine buying trends

As more of the wine trade goes digital, 79% of merchants surveyed expect that technology is going to make buying fine wine easier in next five years. Another 88% have concurred that it has already made the process more efficient.² But in what ways?

A more diverse market

One way in which technology has been changing fine wine buying is by bringing diversity to the table: more wines from more regions and more vintages, are now available at the click of a button.

The past decade particularly has seen a rapid expansion of independent internet wine exchanges, open to private collectors and the trade. There are lower-priced alternatives to the Liv-ex trading platform; however, they offer lower liquidity, higher cost route to market, less relevant exposure and fewer data services and automation opportunities.

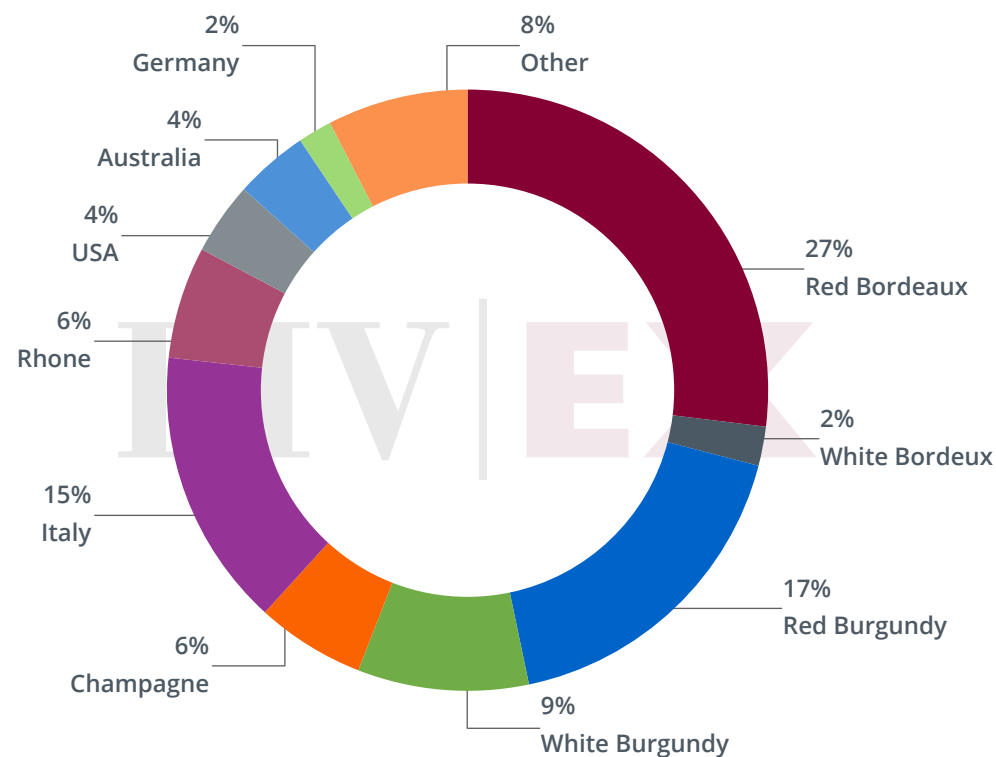
More wines available to buy on the global marketplace



² Our report, [The Future of Wine Trading](#), discussed five innovations in digital technology that are changing the face of the industry.

The wines come from all corners of the fine wine world. As the pie chart on the right shows, wines bought in 2020 came from more traditional fine wine regions like Bordeaux and Burgundy, but also from China, Hungary, Switzerland, Austria, Germany, Chile, Argentina and more. Prices per bottle range from £4 to £21,000.

More regions and more vintages (LWIN11*) available to buy on the global marketplace



***LWIN** (the universal identifier for wine and spirits) is a unique 7, 11, 16 or 18-digit code. The 7-digit code refers to the wine itself (i.e. the producer and brand, grape or vineyard). LWIN11 includes additional information about the vintage. Longer LWINs also list bottle and pack sizes. To find out more about LWIN, the biggest open-source database for wine and spirits, [click here](#).

Greater transparency

Technology has also brought greater price transparency, meaning that buyers can find the right stock at the right price. Price insights are now widely available online on sites such as Wine Searcher and Wine Lister. Buyers who want to know verified transactional pricing data or need a greater depth of pricing data can refer to over 755m historic price points on Liv-ex.

In an [earlier Liv-ex survey](#) (January 2020), over 90% of merchants believe that electronic trading is bringing transparency and flexibility to the wine market, making it easier to price, sell and buy wine than it was twenty years ago.

More efficient trading

Electronic trading has enabled higher volumes of trades in customised ways that were not possible before, when merchants were the default place from which to buy wine. Geography is no longer a determining factor and interaction between buyers and systems is now continuous and multilateral.

Finding the best opportunities at the best possible price has been made even easier with automation.

Buy-side automation allows merchants to bring real-time price information into their internal systems. Buyers can customise their view of the market by creating a list of wines that they are interested in. As soon as a new offer appears, buyers see it on their screens or receive an alert, meaning that they can act fast to buy.



The quiet revolution of APIs

APIs, the technology behind automation, have also brought more buying options for merchants. Buying patterns have become more diverse since Liv-ex fully launched automation through APIs in 2019, leading to a visible increase in the wines on offer on the secondary market – a trend that is set to continue. Wines from regions that have not traditionally found a strong market on Liv-ex are much more likely to be purchased via automation. New Zealand is the best example of this: over 70% of trades for New Zealand wines involve some sort of automation.

Moreover, APIs support transactions, the discovery of prices and the fulfilment of trades. Our report on [How to automate and accelerate your wine business](#) explains how they work and the benefits they bring to merchants.

As seen in the chart on the right, automated trades have increased three-fold since the beginning of the year, with August 2020 seeing the highest number of transactions in a month.

A rising number of automated trades

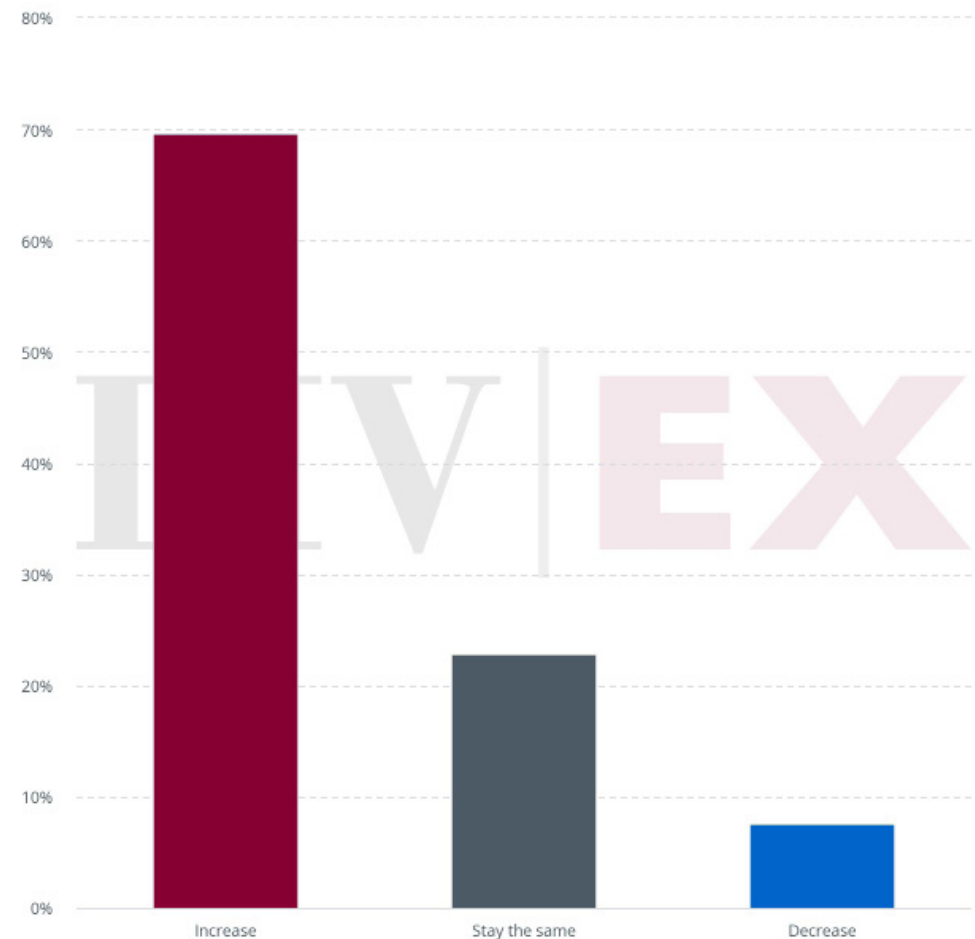


An increase in DTC

70% of the buyers we surveyed expect that the proportion of winery sales (direct-to-consumer) will increase in the next five years. In the USA alone, DTC captured 10.8% of the 2019 domestic wine retail market. This is according to data gleaned from the [2020 DTC wine shipping report](#) produced by ShipCompliant by Sovos, and Wines Vines Analytics. The report reinforces the need for wineries to invest in digital technology and exploit the opportunity to sell direct.

The direct-to-consumer model, which cuts out the middleman, does mean higher margins for producers but presents challenges to retailers. In this competitive environment, price transparency and customer experience are more crucial than ever. With the right tools and technology, fine wine buyers can make informed purchasing decisions, while retaining and expanding their client-base.

How do you expect the proportion of winery DTC (direct-to-consumer) sales to change in the next five years?



Shaping the fine wine market of the future

As industry experts, fine wine buyers are essential for the wine market's growth. While technology is being increasingly appreciated by them and increasingly integrated into their working life, strong personal relationships with their suppliers (be it other merchants, producers, agents) remain indispensable.

In reality, the two are not mutually exclusive. Technology can bring us closer together: buyers from one corner of the world can connect and purchase from sellers from another. It too brings transparency, knowledge and insights to do better trading – and ultimately keep wine consumers happy.

Finding wine at the right price and in pristine condition remain the biggest challenges for buyers; yet nowadays there are more opportunities for efficient settlement than ever before. The market is broader and easier to access. It is simpler to establish the right price, thanks to abundance of online resources and advancements in technology. This solves many of the challenges that fine wine buyers have faced through the centuries, enabling more buying, more selling and ultimately leading to a more profitable trade. The modern-day buyer can savour in the traditional activities of their vocation, while enjoying the efficiencies of the post-digital era.



Liv-ex is the global marketplace for the wine trade. It has over 500 members from start-ups to established merchants and supplies them with the data, trading and logistics services they need, to price, buy and sell wine more efficiently.

Liv-ex was founded in 2000 by James Miles and Justin Gibbs. It started with a group of 10 founding members in London, and a vision to make fine wine trading more transparent, efficient and safe.

Liv-ex publishes the actual prices at which wines are transacted. Its platform contains over £81.2m of firm buying and selling opportunities in over 16,292 wines. All are available to trade in real-time. Liv-ex conceived the Standard-in-Bond (SIB) contract to assure stock condition, delivery and faster payment and provide cost-effective logistics and storage solutions. Its APIs can automate much of this to further improve its merchant members' gross profits.

For more information visit www.liv-ex.com¹ or [get in touch today](mailto:nicola@liv-ex.com)².

This article is provided for informational purposes only and does not amount to financial advice or advice as to the value or likely future values of any of the wines it discusses. If you are valuing wine in the US, you will need to consider that Market Prices are based primarily on European stockists and adjust for local conditions. You are advised to carry insurance when providing valuations in certain circumstances, such as for divorces, financing and loss adjusting. The market price should not be used to value wines in any financial instrument such as a fund. The opinions expressed are subject to change without notice. Neither Liv-ex Ltd nor any of the authors or editors of this newsletter accept any liability for the accuracy of its contents.

¹ <https://www.liv-ex.com>

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