



cutting through complexity

KPMG IN POLAND

The alcoholic beverages market in Poland

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Contents

1	Introduction	3
2	Alcoholic beverages – Summary of findings	5
2.1	Size and condition of the market	5
2.2	Product and consumer trends	9
2.3	Retail distribution channels	11
3	Beer	17
3.1	Size and condition of the market	17
3.2	Consumer and product trends	21
3.3	Manufacturers and importers	26
3.4	Retail distribution channels	28
3.5	Production and exports	30
3.6	Situation of companies	31
4	Wine	33
4.1	Size and condition of the market	33
4.2	Consumer and product trends	37
4.3	Manufacturers and importers	43
4.4	Retail distribution channels	44
4.5	Production	47
4.6	Situation of companies	50
	Fermented alcoholic beverages	51
	Fruit wine	52
	Mead	54
	Cider and perry	56
5	Spirits	59
5.1	Size and condition of the market	59
5.2	Consumer and product trends	62
5.3	Vodka	66
5.4	Liqueurs and other flavoured spirits	70
5.5	Whisk(e)y	73
5.6	Brandy and cognac	77
5.7	Rum	80
5.8	Gin	83
5.9	Tequila	85
5.10	Manufacturers and importers	87
5.11	Retail distribution channels	88
5.12	Production and exports	90
5.13	Situation of companies	93
	RTD	95
6	Excise duty on alcoholic beverages	99
6.1	The EU context, subdivision into types, and minimum excise duty rates	99
6.2	Excise duty rates in Poland	100
6.3	Excise-taxed spirits in Poland in the context of the EU and the neighbouring countries	102
6.4	Budget revenues from excise duty on alcoholic beverages	105
7	Legal framework for alcoholic beverages market	107
7.1	Essential legal framework	107
7.2	Controversies regarding the polish legal framework	108
7.3	Manufacturing	111
7.4	Distribution	114
7.5	Advertising and promotion	116
8	Research methodology	121
8.1	Desk research	121
8.2	A survey of polish consumers of alcoholic beverages	121
8.3	A survey of companies operating on the market of alcoholic beverages in Poland	122

1

Introduction

We are pleased to present this report, prepared with the aim to offer a comprehensive picture of trends on the alcoholic beverages market in Poland. This publication describes all key categories, from beer, wine and fermented alcoholic beverages to various spirits and RTDs. In order to offer a multifaceted view on the market, we supplemented our analysis of retail sales with a survey conducted with adult consumers as well as manufacturers and importers of alcoholic beverages.

The analysis revealed a picture of a market at the stage of considerable transformation driven by consumer trends and product trends. While the categories of beer and vodka continue to prevail, the market is becoming richer as well as more complex. As premiumisation progresses, some categories are growing in popularity, for instance grape wine, whisk(e)y and specialty beers. The innovation trend also plays an increasing role, reflected in the expansion of flavoured beers and spirits. At the same time, the pressure on margins is not receding, and stems from consumers' high price sensitivity, their efforts to seek value for money, and from the negotiating power of some distribution channels.

Of no less importance is the regulatory trend, encompassing primarily an increase in excise duty on spirits since early 2014. In order to present those changes in a broader context, we undertook an analysis of excise duty regulations in Poland against the background of neighbouring countries and other EU member states. The report also brings a summary of key regulations concerning production, trade and advertising of various categories of alcoholic beverages.

We would like to extend our thanks to all companies and consumers who took part in our survey. In particular, we would like to thank the managers and industry experts who spent their time answering questions during our in-depth interviews. We believe that this publication will provide many interesting insights into the alcoholic beverages market in Poland.



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2

Alcoholic beverages – Summary of findings

2.1 Size and condition of the market

In 2013, Poles spent over PLN 41.1 billion on alcoholic beverages, buying 4,436 million litres of such products, both off- and on-trade. Traditionally, the core value share belonged to beer (47%) and vodka (30.7%), i.e. two categories which have the largest groups of regular or fairly regular consumers. However, changes on the market have become clearly visible. The volume of beer sales has not changed and vodka sales have declined, yet consumers are exploring new categories of alcoholic beverages. An increasing popularity is observed for categories such as low-proof flavoured spirits, as well as grape wine and whisk(e)y, all of which are no longer a niche and have turned into important market segments in recent years. Also, cider represents high potential, even though this category has been hardly present on the market until very recently. While the industry is almost unanimous in saying that the greatest revolutions are already behind us, the future will bring more changes, including further growth in the sales of wine and whisk(e)y, an evolution in beer towards beer specialities and an accelerated decline in vodka sales, driven by the rising excise duty rates.

Beer market heading for saturation

Beer is the most popular alcoholic beverage among Poles. It is consumed at least a few times a year by nearly 73% of adult Poles, which corresponds to almost 23 million of relatively regular consumers. In the record-breaking 2012, when the European football championship was held in Poland, Poles spent PLN 19.5 billion on beer, drinking 3.89 billion litres of that beverage, which crowned the over twenty years of nearly uninterrupted growth of this category. 2013 saw a slight correction though: Poles bought 3.82 billion litres of beer, worth PLN 19.3 billion. The odds are that the beer market in Poland is heading for saturation and it's possible that further growth in 2014 and 2015 will be small in terms of volume, and is likely to be driven mostly by speciality beers and beer blends.

Vodka sales declining, flavoured drinks and whisk(e)y on the rise

Spirits are the second largest segment of the Polish market of alcoholic beverages. They are consumed by as many as 88% of adult Poles in the course of a year. In 2013, sales of this category in Poland reached a volume of 348.3 million litres, with sales value of about PLN 17.4 billion. This means that Poland is among the largest spirits markets in Europe in terms of quantity. The value of the category is still low in comparison with large Western European markets, which stems from the dominant role of vodka in sales structure.

This situation has been changing gradually. Particularly noticeable is the growth in low-proof flavoured 'vodkas': even though they are not formally vodkas, they take consumption occasions away from regular vodka.

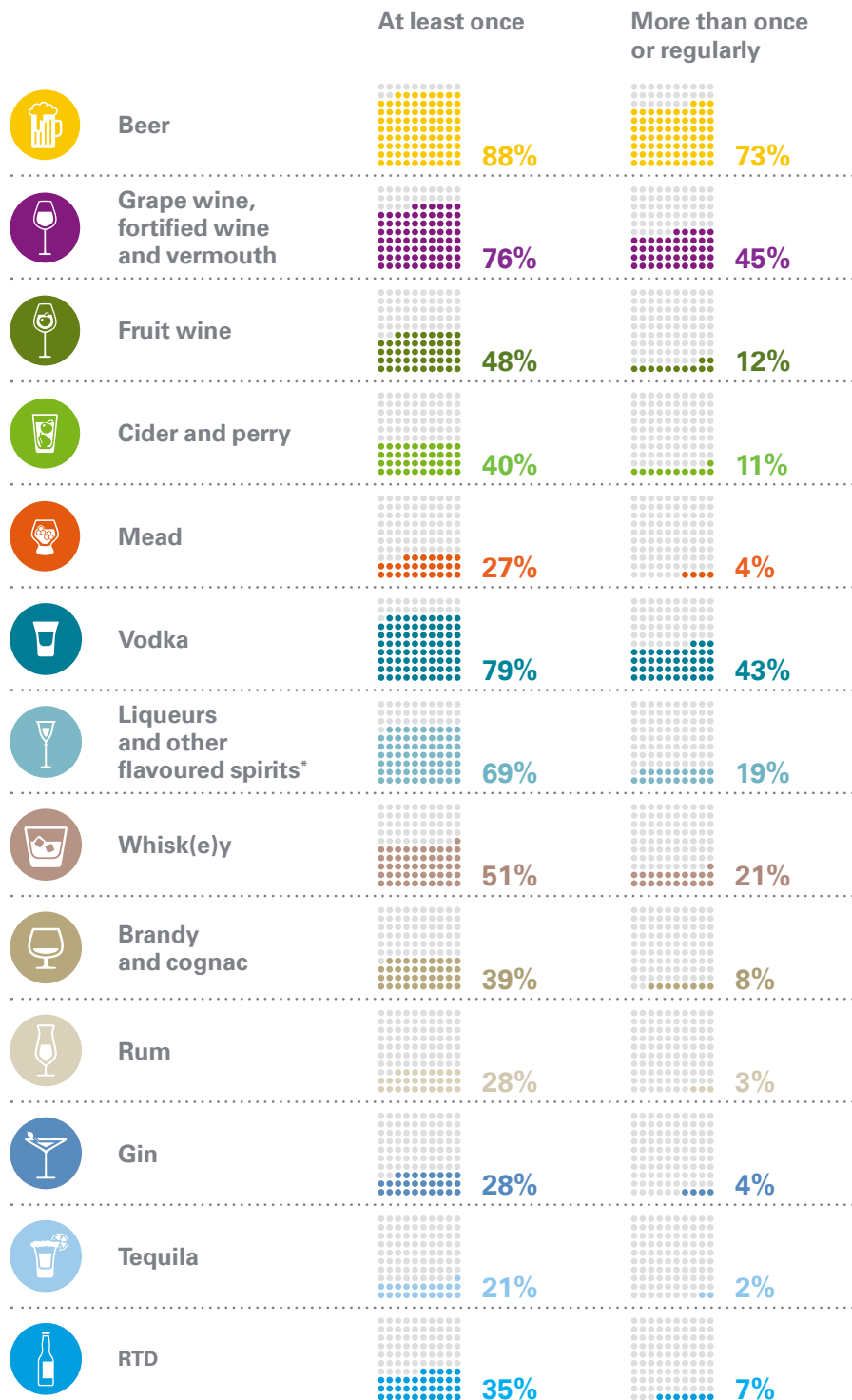
In parallel, consumers discover other sorts of imported spirits, predominantly whisk(e)y. In the course of last year, this beverage was consumed by one in two adult Poles, and 21% drank it a few times during the year. In 2013, a total of 19 million litres of whisk(e)y were sold, reaching a figure of PLN 1.8 billion. This was six times as much as in 2004 in terms of sales volume and five times in terms of value. Moreover, the industry expects further growth in the category, even by 8–9% per annum in 2014 and 2015. As regards vodka, further decline can be expected, aggravated by the 15% rise in the excise duty, introduced at the start of 2014. The surveyed market participants expect, on average, a decline by 4% in 2014 and by 3% in 2015.

Poles are discovering grape wine

The wine market has seen dynamic expansion. Grape wine, fortified wine and vermouth are consumed at least a few times a year by nearly one in two adult Poles (45%), even though in small quantities. Grape wine has turned out to be a true discovery for Poles in recent years. In 2013, Poles bought 142.5 million litres of this wine (including sparkling wine), with sales totalling PLN 2.6 billion. In quantitative terms, it marked a 56% growth in comparison with 2004.

The alcoholic beverages market in Poland

Consumers who drank this beverage during the year



*The category also includes low-proof flavoured vodka (below 37.5%), bitters and (to a small extent) other flavoured spirits, including rum-flavoured alcoholic beverages.

Source: KPMG in Poland. Based on a consumer survey

The alcoholic beverages market in Poland

Retail sales (2013)

		Volume	Value
	Beer	 3 819 million litres (86.1 %)	 PLN 19.3 billion (47.0 %)
	Grape wine, fortified wine and vermouth	 142.5/30.5 million litres (3.2/0.7 %)	 PLN 2.6 /0.9 billion (6.3/2.3 %)
	Fruit wine	 84.0 million litres (1.9 %)	 PLN 0.7 billion (1.6 %)
	Cider and perry	 2.0 million litres (<0.1 %)	 PLN 19 million (<0.1 %)
	Mead	 0.6 million litres (<0.1 %)	 PLN 29 million (<0.1 %)
	Vodka	 275.7 million litres (6.2 %)	 PLN 12.6 billion (30.7 %)
	Liqueurs and other flavoured spirits*	 45.3 million litres (1.0 %)	 PLN 2.2 billion (5.4 %)
	Whisk(e)y	 19.0 million litres (0.4 %)	 PLN 1.8 billion (4.3 %)
	Brandy and cognac	 5.7 million litres (0.1 %)	 PLN 0.6 billion (1.4 %)
	Rum	 0.5 million litres (<0.1 %)	 PLN 72 million (0.2 %)
	Gin	 2.0 million litres (<0.1 %)	 PLN 119 million (0.3 %)
	Tequila	 0.1 million litres (<0.1 %)	 PLN 21 million (0.1 %)
	RTD	 9.0 million litres (0.2 %)	 PLN 146 million (0.4 %)

*The category also includes low-proof flavoured vodka (below 37.5% bitters and (to a small extent) other flavoured spirits, including rum-flavoured alcoholic beverages.

Source: KPMG in Poland. Based on a consumer survey















In turn, the market of fortified wine and vermouth has been growing at half the pace, reaching a volume of 30.5 million litres and a value of PLN 0.9 billion in 2013. Despite the increasing popularity of wines, the Polish market remains rather small when viewed in the European context. According to companies' forecasts, the category of grape wine is likely to expand at a rate of nearly 7% per annum in the next two years. However, fortified wine and vermouth are expected to experience stagnation or even a decline.

Fruit wine becoming a thing of the past, cider storming the market

Consumers have been consistently less and less interested in fruit wine and, as the industry expects, this interest will shrink in future. In 2013, a total of 84 million litres of fruit wine was sold at nearly PLN 0.7 billion. This does not mean, however, that fermented alcoholic beverages have no future in Poland. In the last two years, cider stormed its way to the Polish market, promoted by manufacturers and retailers, supported by some public authorities and widely covered by the media. In the course of the last year as many as 40% adult Polish consumers tried cider or perry. In 2013, sales of cider reached approx. 2 million litres, and this figure is likely to cross the mark of 15 million litres in 2014.

The alcoholic beverages market in Poland

Projected change in retail volume

		Average growth projection (2013-2015)			
		Strong decline (>5%)	Moderate decline (up to 5%)	Moderate growth (up to 5%)	Strong growth (>5%)
Category size (value)	Niche (<0.5 billion PLN)		 Mead (-1%)	 Gin (+2%)  Tequila (+5%)	 Cider and perry (x10)  RTD (+7%)  Rum (+6%)
	Small (0.5-1.5 billion PLN)	 Fruit wine (-6%)	 Fortified wine and vermouth (-1%)  Brandy and cognac (-2%)		
	Large (1.5-3 billion PLN)			 Liqueurs and other flavoured spirits* (+5%)	 Whisk(e)y (+18%)  Grape wine (+14%)
	Very large (>12 billion PLN)	 Vodka (-6%)		 Beer (+4%)	

*The category also includes low-proof flavoured vodka (below 37.5%), bitters and (to a small extent) other flavoured spirits, including rum-flavoured alcoholic beverages.

Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

2.2 Product and consumer trends

Consumers seek products of higher quality and brands which show the attributes of the premium segment. At the same time, they actively seek the best value for money (in terms of quantity or quality) and hunt for special deals. Those two trends impact all categories of alcoholic beverages, shaping consumer choices as well as strategies adopted by manufacturers and distributors. The market is also under the influence of many other smaller-scale trends, including those related to knowledge, exploration of innovations and a quest for products with a local profile.

Consumers more likely to opt for premiumness

Three in ten (31%) adult consumers of alcoholic beverages claim they try to choose alcoholic beverages with higher than average quality and are happy to opt for premium brands. As a result, the specialty beer market has been expanding dynamically, covering low-fermentation beers which go beyond the typical Euro lager type, as well as high-fermentation beers. Moreover, grape wine and whisk(e)y have also recorded a boost. The surveyed companies from the market of alcoholic beverages believe that premiumisation will become the most influential trend for the industry in the next two years, especially in the case of spirits.

Price continues to be an important criterion

Regardless of the progressing premiumisation, 26% of consumers admit that they definitely look for the best value for money (in terms of quantity/quality), hunting for promotions and seeking the lowest price on specific products. The value for money trend has impacted nearly

all price segments on the market of alcoholic beverages (except the top premium segment), creating an unusually strong pressure on manufacturers and distributors to reduce margins, and highlighting the role of price in the competitive game. This trend is mostly manifested in the expansion of economy segments in nearly all categories of alcoholic beverages and a strong growth of discounters as distribution channels for manufacturer's brands and also as brand owners and independent importers, especially those of grape wine and beer.

Regional origin is appreciated

While consumers explore international alcohol brands without an inferiority complex, they nevertheless appreciate the local flavour and are happy to opt for Polish products, especially ones related to specific regions of the country. This is perfectly noticeable on the beer market, where brands owned by regional breweries have flourished and are successfully making their way to the national market. Regionality is also an important attribute of brands on the spirits market. However, regional character does not always mean being locked in a narrowly understood tradition. For instance, regional beer brands initiated many innovative trends that were embraced by major corporations, permanently changing the category landscape.

Consumers open to innovation

The innovation trend is absolutely crucial for the beer and spirits markets. Consumers in Poland are definitely open to novelty whereas manufacturers (and, to a lesser extent, distributors of foreign brands) effectively stimulate this trend by launching product innovations. On the beer market, this trend propelled a dynamic expansion in flavoured beers (fruit, honey and other flavours) and beer blends. As regards spirits, rapid growth has been observed in the segment of low-proof flavoured 'vodka's'. A survey of companies from

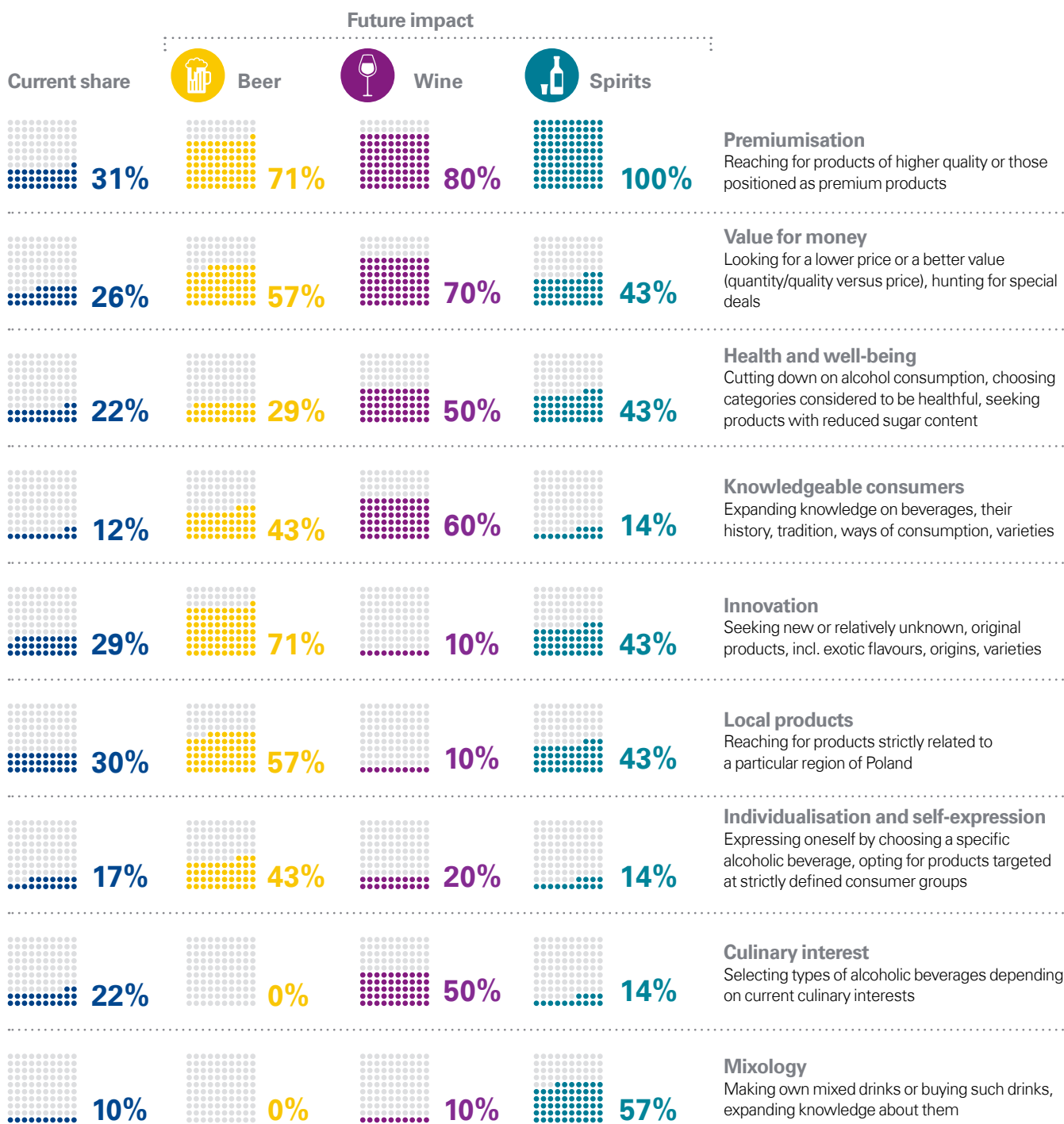
the industry of alcoholic beverages indicates that the innovation trend is going to persist in beer and spirits in the next two years, thus helping companies to expand their product range by adding new flavours and varieties.

Sophisticated consumers want to know more

Consumers relatively rarely (12%) indicate that they are seriously interested in deepening their knowledge of alcoholic beverages, their history, tradition, varieties or ways of consumption. Even less so (10%), consumers show an interest in mixology, i.e. the knowledge of mixed drinks and the practice of drink-making. On the other hand, more respondents (22%) actively explore the interface of culinary experience and alcoholic beverages. Despite a relatively small coverage, alcohol companies are convinced that those trends are going to have a considerable influence on their markets. The knowledgeable consumer trend plays a particularly important role for the market of beer and wine, where the consumer education process has been clearly noticeable in recent years, translating into a surge of interest in speciality beers (incl. craft beers) and in classic grape wine. Companies from the wine sector also notice a strong link between the changing culinary interests, consumer choices and frequency of grape wine consumption: the rising popularity of Mediterranean cuisine in Poland plays a fundamental role in the evolution of the wine market. In turn, mixology has been gradually changing the sales structure in spirits, driving the sales of whisk(e)y and niche categories which are frequently used for mixing, i.e. rum or gin.

The alcoholic beverages market in Poland

Key consumer trends



Current share – percentage of consumers of alcoholic beverages who strongly identify with this attitude

Future impact – percentage of companies which believe that this trend will play a key role for the category in the next two years

Consumers and companies were asked to identify max. 4 key attitudes/trends.

Source: KPMG in Poland. Based on a consumer survey and a survey of companies from the market of alcoholic beverages

2.3 Retail distribution channels

Recent years saw changes not only in the kinds of alcoholic beverages bought by Poles and sums spent but also in places where Poles do their shopping. As the importance of small retail formats declines, an increasing role in retail is played by supermarkets and discounters, the latter being the most dynamic market players. The on-trade channel invariably plays a very small role (in comparison with other European countries). Opinions collected from companies operating on the market of alcoholic beverages indicate that supermarkets and discounters are likely to expand their market shares further. Solid growth prospects have emerged for specialised retailers as well as restaurants, pubs, bars and cafe's.

On-trade sales still weak

The Euromonitor International data indicate that the on-trade channel in Poland (pubs, bars, restaurants, hotels) is among the weakest ones in Europe in terms of its importance for retail distribution of alcoholic beverages. In 2013, this channel was responsible for 19% of the sales volume of beer, 4% of grape wine, fortified wine and vermouth, and 8% of spirits. As the Polish society grows more affluent, and cultural changes become more visible, one can expect that the importance of on-trade sales will rise. According to our survey of companies engaging in the production or distribution of alcoholic beverages, the coming years are likely to bring a gradual growth in the importance of pubs, bars and cafe's in the case of beer, restaurants in the case of wine and clubs and discos in the case of spirits. Certainly, many years will pass before Poles begin to use this channel as intensively as residents of other countries of Central and Eastern or Western Europe.

Small retailers losing importance






The key trend in the off-trade channel is the consistently declining importance of small retail formats. In 2008, small shops were responsible for 67% of the off-trade sales of beer and spirits (in terms of volume) whereas in 2013 the respective share was only 60% for beer and 52% for spirits. Also, the role of hypermarkets has dwindled, as they are being replaced by medium-size stores: supermarkets and discounters. Particularly the latter have gained a very high share in retail trade, reaching 14% in beer and 18% in spirits. True dominance, however, can be seen in the category of grape wine, fortified wine and vermouth, where discounters played a decisive role in attracting consumers to the category. They also made efforts in consumer education, which crowned their sales volume with a 46% share in 2013.

Discounters and supermarkets will continue to gain share

Alcoholic beverages companies have no doubt: discounters will continue to reinforce their position in all key market segments. Also, the role of supermarkets will rise, especially in beer and wine. In the opinion of the sector respondents, good prospects lie ahead only for highly specialised shops, selling beer, wine as well as spirits. The future of online trade is uncertain: only under 2% of alcohol shoppers use it at present. Companies notice some potential for growth in wine and spirits, yet the growth of this channel will only be possible once legal issues surrounding the online sale of alcoholic beverages have been fully clarified. As the current legal framework is unclear, companies do not venture to invest in this area.

The alcoholic beverages market in Poland

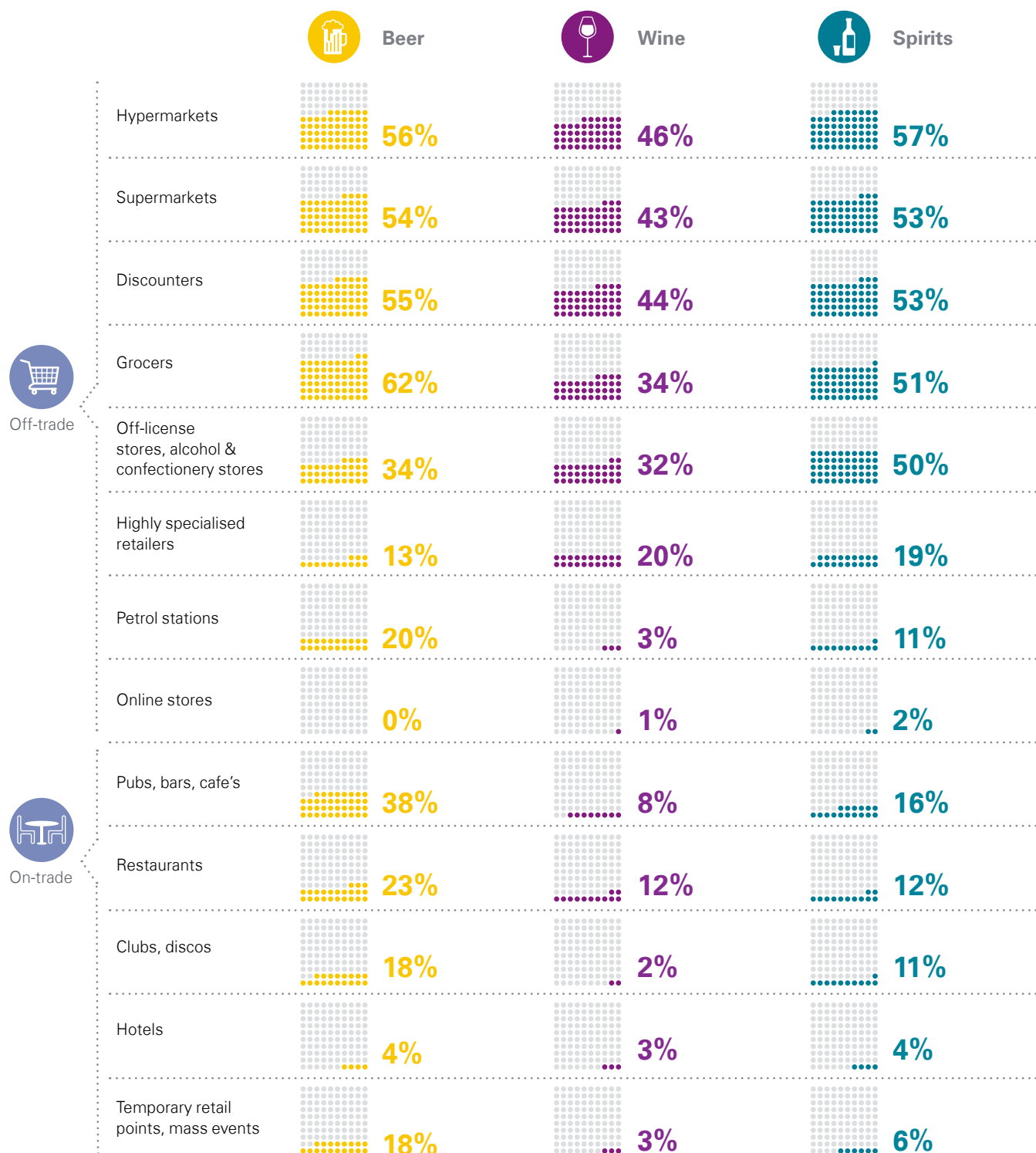
Retail distribution channels – shares in sales volume (2013)

		 Beer	 Wine	 Spirits
 Off-trade	Hypermarkets		12%	15%
	Supermarkets		14%	20%
	Discounters		14%	46%
	Grocers	81%	96%	92%
	Off-license stores, alcohol & confectionery stores			
	Highly specialised retailers			
	Petrol stations			
	Online stores			
 On-trade	Pubs, bars, cafe's	19%	4%	8%
	Restaurants			
	Clubs, discos			
	Hotels			
	Temporary retail points, mass events			

Source: KPMG in Poland based on data from Euromonitor International

The alcoholic beverages market in Poland

Current popularity of retail distribution channels

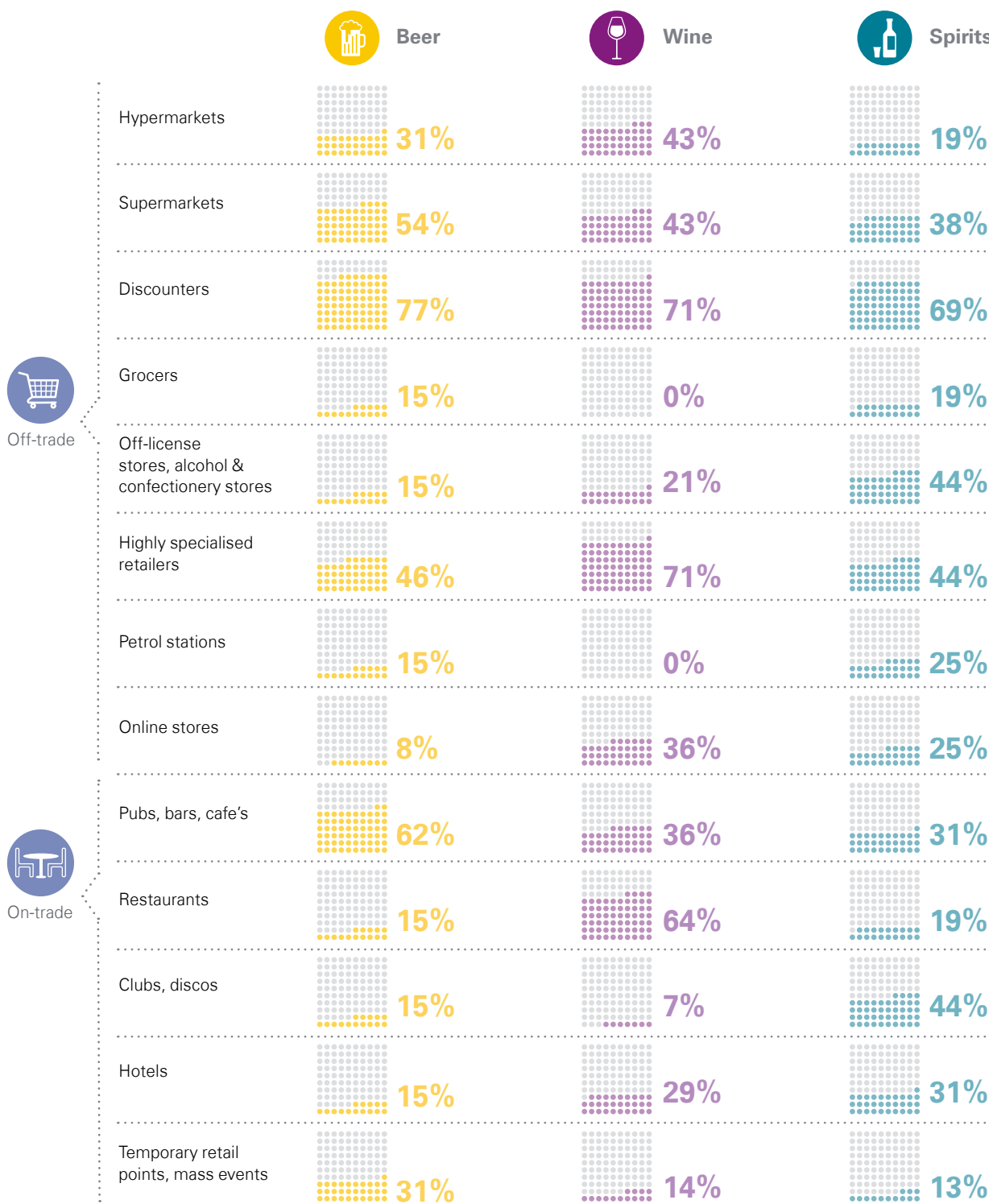


Current popularity – percentage of consumers who buy individual alcoholic beverages in a given channel

Source: KPMG in Poland. Based on a consumer survey

The alcoholic beverages market in Poland

Growth potential of retail distribution channels



Growth potential – percentage of companies which believe that this channel will grow in importance in a given category concerned (the respondent could indicate max. 3 channels)

Source: KPMG in Poland based on a survey of companies from the market of alcoholic beverages





3

Beer

3.1 Size and condition of the market

Beer is the most popular alcoholic beverage among Poles. Almost 73% of adults drink it at least several times a year, which corresponds to nearly 23 million consumers. In the record-breaking year 2012, when the UEFA European Championship took place in Poland, Poles spent PLN 19.5 billion on beer, drinking 3.89 billion litres of that drink, which was the crowning achievement of more than twenty years of nearly incessant growth of the category. However, the odds are that the beer market in Poland is heading for saturation and its potential further growth will be very insignificant.

23 million consumers

88% of adult Poles drank beer in the past year and as many as 73% (22.8 million consumers) drank it at least several times during that time. Men are more likely to be beer consumers (84%), although, contrary to the stereotype, beer also has quite many female consumers (62%). Young people are most likely to be regular or relatively regular beer consumers. The proportion of beer consumers among people aged 18–39 exceeds 80%, whereas it is significantly lower among people over 55 years of age: 62%.

Poles do not need any special occasion to drink beer – this was claimed by 71% of those who drank beer during the past year. Poles are also likely to choose beer during social get-togethers (56%), while on holiday or on a trip (43%) and during organised events or parties (33%).

Polish market among European leaders

For over twenty years, up to 2012, the Polish beer market was growing almost incessantly. Despite the temporary decline in sales caused by the crisis and increased the excise duty in 2009, retail sales of the category in 2004–2012 increased by over 40% in terms of

quantity. 2012 was a record year, which was undoubtedly driven by the UEFA Championship and the related intensification of promotional activities by manufacturers. At that time, Poles bought 3.89 billion litres of beer at a total sum of PLN 19.5 billion. 2013 saw a slight correction: Poles purchased 3.82 billion litres of beer at PLN 19.3 billion.

Saturation getting closer

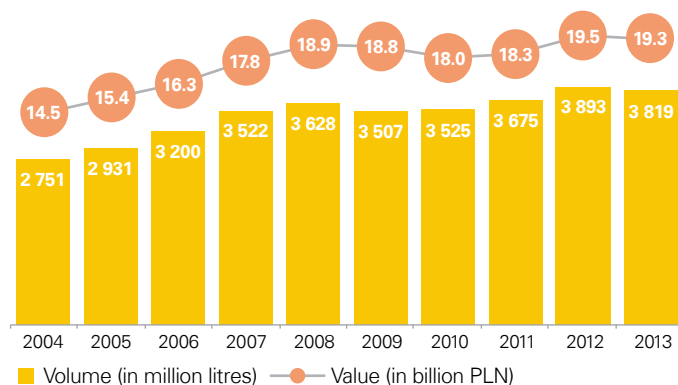
An average adult Pole bought 121.5 litres of beer in 2013. Obviously, the amounts of beer purchased by one person legally entitled to consume alcohol were higher in countries with the longest and most deeply rooted beer drinking tradition and culture: 174.7 litres in the Czech Republic and 127.9 litres in Germany. Compared with other European countries, Poland is nevertheless a very large market, despite relatively low average spending on beer.

These data indicate that the beer market in Poland is already saturated or close to saturation in quantitative terms. This opinion also predominates among the interviewed brewing companies. Based on their predictions, only small increases in volume can be expected in the forthcoming years. On the other hand, the value of the market is likely to grow at a faster pace.

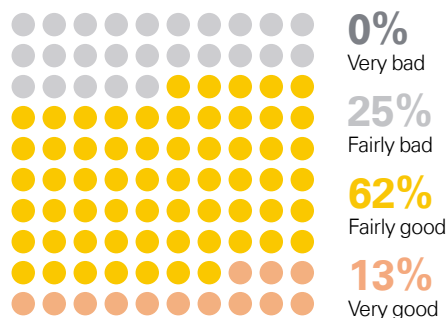
Beer

The beer market in Poland

Retail sales



Companies on current market situation



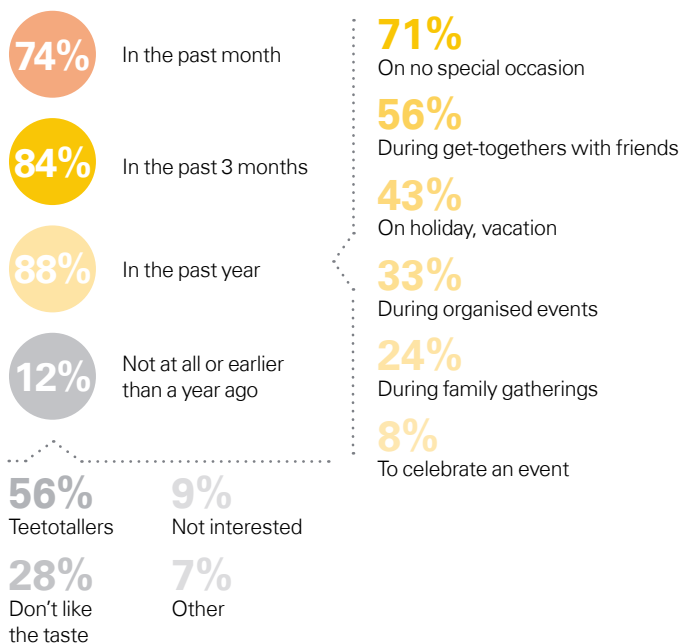
Companies on projected changes in sales volume



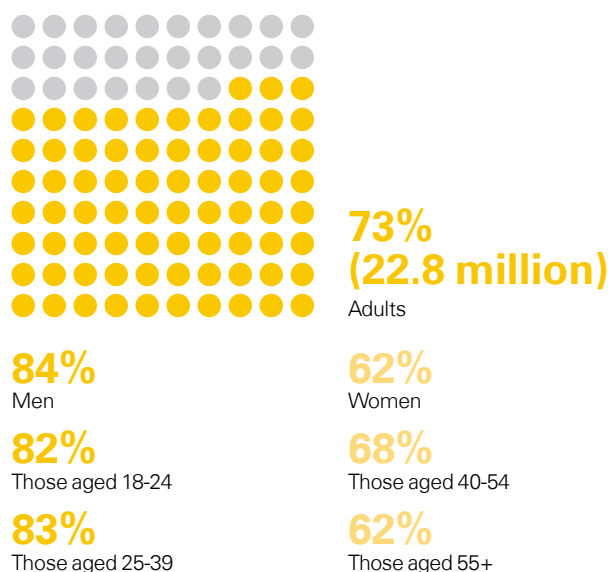
Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

Beer consumers in Poland

Adult consumers drank beer



Consumers who had beer at least a few times during the year

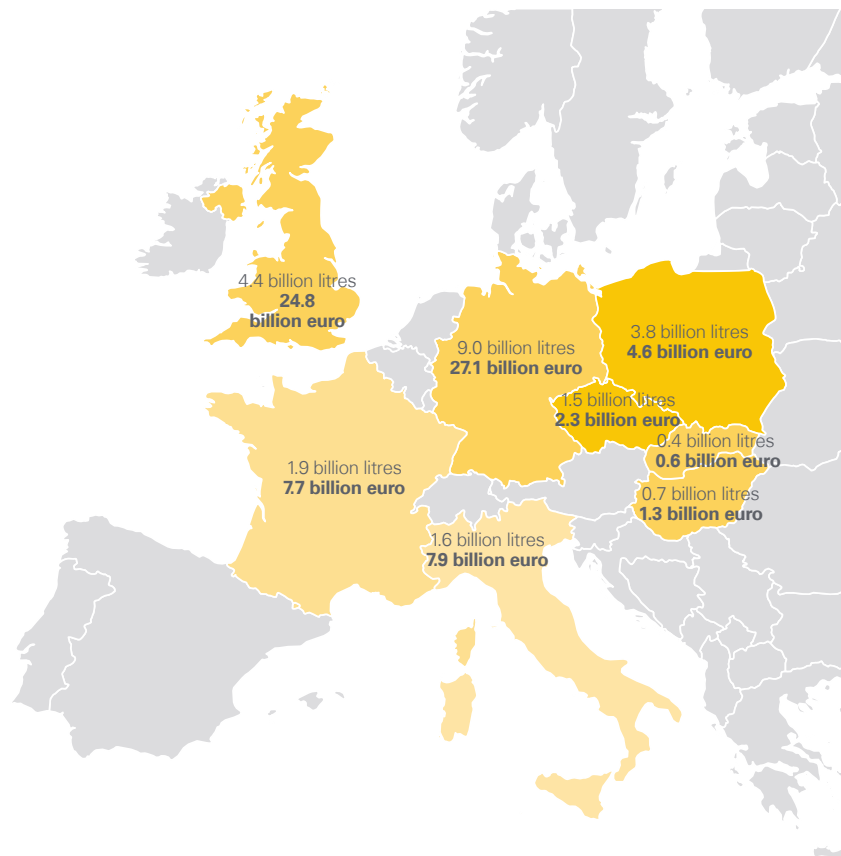


Source: KPMG in Poland. Based on a consumer survey

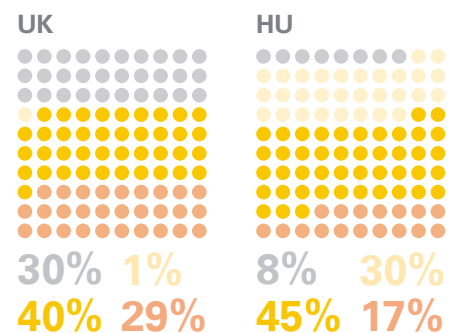
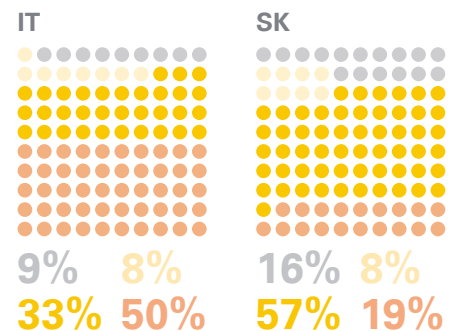
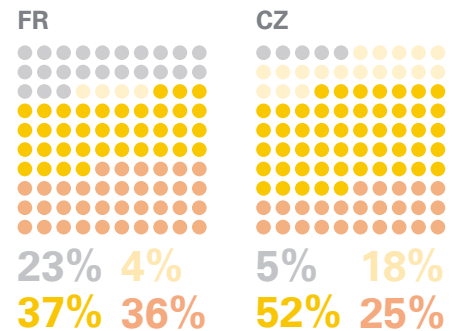
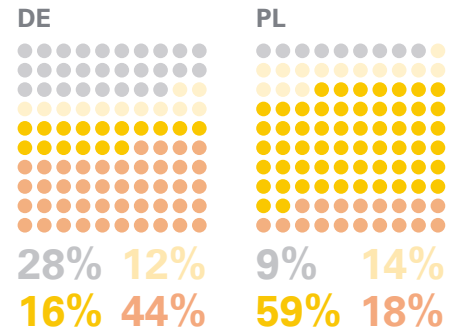


The beer market in Poland and selected European countries

Value and volume of retail sales (2013)



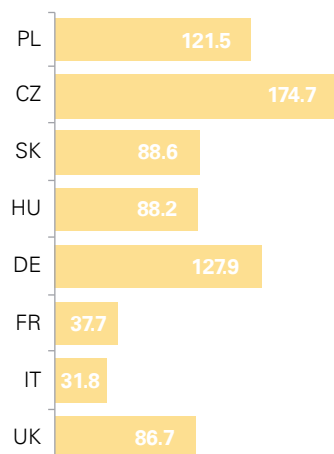
Sales volume



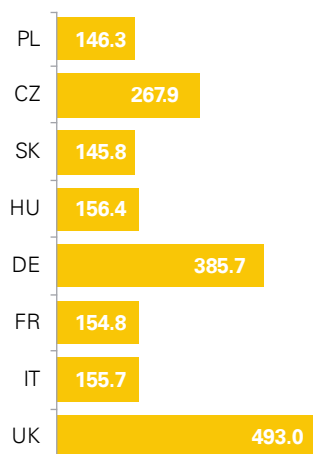
● Other
 ● Economy lager
 ● Standard lager
 ● Premium lager

Sales per person at the legal age for alcohol purchase

Volume (litres)



Value (EUR)



Source: KPMG in Poland based on data from Euromonitor International

Beer

“The growth rate on the Polish beer market slowed down considerably after 2008. This was caused by the increased excise duty and the gigantic pressure on costs of raw materials and ingredients, which triggered price rises, thus reducing returns. The sector had to find a way out by cutting costs and limiting investments in order to survive, which led to stagnation. However, in 2012 we experienced an increase in sales volume again, which showed us that things could look different. This was linked not as much with the UEFA Championship itself (which was a short-lasting event after all) as with the enormous mobilisation of investments in the sector at that time. A correction followed but we are still at the level preceding the championship. What will happen next? Overall, we are already a very big market. Consumption is very high and it is really hard to drive sales volumes much higher in the category. Any possible further growth, though not significant, might only be expected as a result of robust and sustainable economic growth, which would translate into higher salaries and wages. On the other hand, we have very high unused production capacities, which obviously leads to all sorts of attempts at driving sales volume. As a result, the lower-standard segment is growing but prices and profitability of the most popular products will certainly not go up. At the same time, the sector will focus on launching higher-value products which have not been commoditised and can promise higher margins. For many years, international premium brands used to be such a segment but there are hardly any symptoms of marked growth there. Nowadays, regional and hand-crafted beers are the most dynamic area of the premium segment, and all market players are benefiting from it. A higher value can also be achieved in the segment of flavoured beer and beer mixes.

Tomasz Bławat

President of Management Board, Carlsberg Polska



“After 20 years of intensive growth, the Polish beer market has clearly become saturated and is visibly stagnant at present. Multinational corporations which control the majority of the market are competing, which is especially evident in super- and hypermarkets, where one special deal breathes down another's neck. Medium-sized breweries have firmly positioned themselves as suppliers of low-end beer or private labels, a category which is growing in volume but shrinking in value. Specialty beers, flavoured beers and craft beers are increasingly appreciated by consumers but they will not overcome the barrier of relatively higher prices, stemming from higher production costs. On the one hand, retailers' and consumers' pressure on prices leads to deteriorated quality of products and reduced returns for manufacturers. On the other hand, high quality beers, which require expensive raw materials and a long production process, costs so much that mass consumption cannot reasonably be expected.

Hubert Buksowicz

Owner, Browar Jabłonowo



“Poles are among the top five countries in the world in terms of per capita beer consumption. Moreover, they remain loyal to beer brewed in Poland. Hence, the situation is very good and any complaints in the media that, for instance, the sector has seen a 1% decline (though one year earlier there was a 3% increase), are basically unjustified. Poland is currently a dreamland market for craft breweries: we are reclaiming a large desert, which was carefully circumscribed by sector leaders for the last 15 years. Craft breweries have been bringing 'fresh water' to that desert for the last three years. While they are still trading in small barrels, the irrigation of the desert has become an irreversible process.

Ziemowit Fałat

Co-owner, PINTA





3.2 Consumer and product trends

Poles are looking for products of higher quality and are open to experiments. On the one hand, they explore speciality beers and, on the other, choose flavoured beer or beer mixes. At the same time, the increasing importance of price and a quest for promotions is also a significant trend, considerably affecting margins in traditional lagers.

Consumers on the lookout for higher quality, appreciating novelty

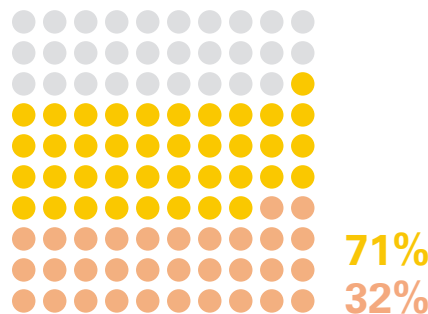
Premiumisation and innovation are the key consumer trends that shape the beer market in Poland. Consumers are exceptionally open to new proposals and often actively seek new kinds, varieties and flavours. Moreover, we have seen the emergence of a sizeable group of people who seek higher quality in products and brands and are prepared to pay more than for a standard product. Beer is increasingly becoming a lifestyle choice and the particular type chosen is a token of individuality.

At the same time, consumers highly appreciate the local character, which translates not only in the interest in Polish brands but also in the appreciation of regional products. All those phenomena have a very strong impact on the market and sales structure. Managers from the beer sector are almost unanimous in saying that those trends will continue to shape the category in the coming years.

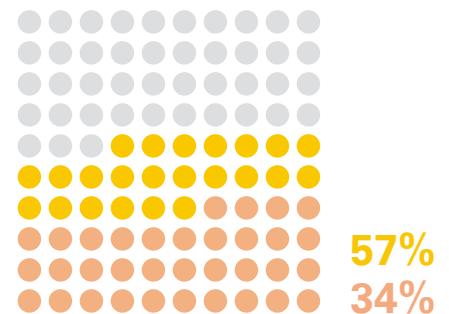
The beer market in Poland

Key consumer trends

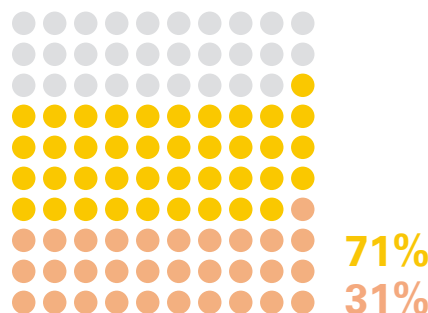
Premiumisation



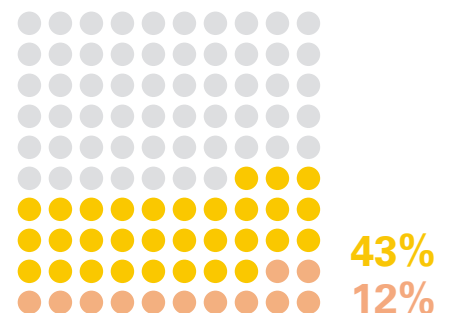
Local products



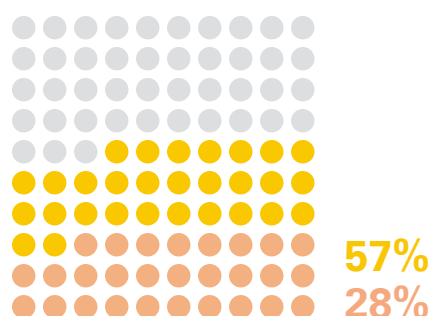
Innovation



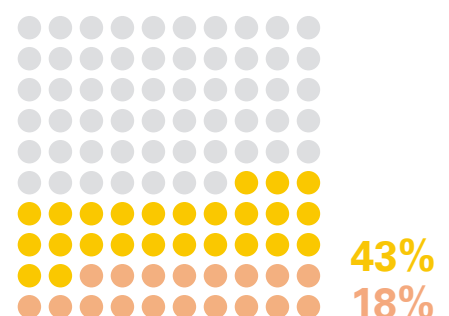
Knowledgeable consumers



Value for money



Individualisation and self-expression



- **Future impact** – percentage of companies which believe that this trend will play a key role for the category in the next two years
- **Current share** – percentage of consumers of beer (regular or fairly regular) who strongly identify with this attitude

Consumers and companies were asked to identify max. 4 key attitudes/trends.

Source: KPMG in Poland. Based on a consumer survey and a survey of companies from the market of alcoholic beverages

Beer

The new face of premiumisation

Premiumisation does not necessarily mean an increased interest in major local premium brands or established international brands. Recent years have clearly shown that premiumisation on the Polish beer market is associated mainly with the exploration of speciality beers, i.e. low-fermentation beers that go beyond the typical Eurolager and high-fermentation beers, such as e.g. weizen, witbier, pale ale, stout or IPA. These ranges grew very dynamically in recent years and, interesting in the trend was initiated by smaller regional companies and craft breweries, only later followed by major brewers. For the former, specialty beers have often become the core elements of their portfolios, whereas the latter added such products to achieve higher margins than those earned on traditional lagers.

Given higher prices and, in many a case, a demanding profile, specialty beers remain a niche segment in the category, not exceeding 5% of total volume. However, this segment has very strong growth prospects, which is facilitated not only by consumers' interest and highly innovative manufacturers but also by the increasing presence in mass retail distribution, which already goes significantly beyond highly specialised vendors and deli shops.

Consumers on the lookout for new flavours

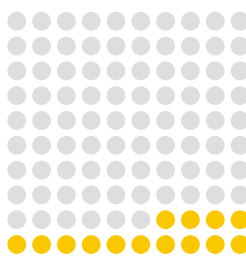
The innovation trend on the beer market in Poland manifests itself in the dynamic growth of flavoured beers (fruit, honey etc.) and beer mixes. These products appeal not only to people who are bored with lagers but also to those who simply do not like the taste of traditional beer. Since 2004, sales of such products have nearly doubled, currently playing a very significant role in the beer market as a whole, with a sales volume of nearly 268 million litres in 2013.

Moreover, the interviewed brewing companies frequently claimed that

The beer market in Poland

Retail sales (2013)

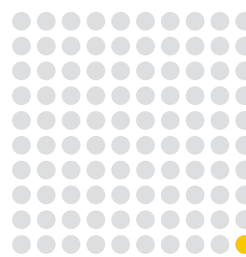
Economy lager



PLN 1.6 billion
(8.4%)

521 million litres
(13.6%)

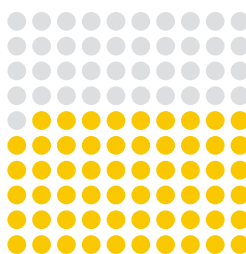
High-fermentation beer



PLN 293 million
(1.5%)

32 million litres
(0.8%)

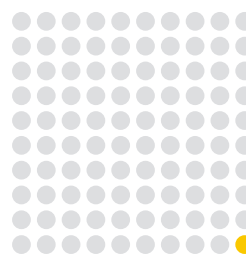
Standard lager



PLN 10.5 billion
(54.7%)

2 245 million litres
(58.8%)

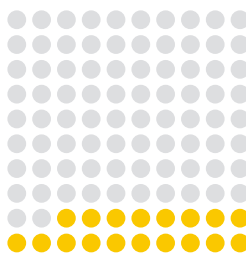
Stout and porter



PLN 481 million
(2.5%)

35 million litres
(0.9%)

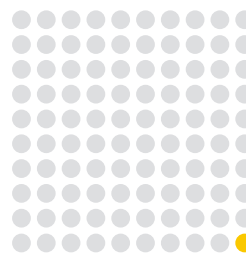
Premium lager



PLN 4.3 billion
(22.1%)

696 million litres
(18.2%)

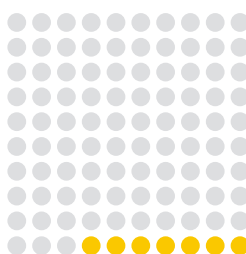
Non-alcoholic and low-proof beer



PLN 209 million
(1.1%)

23 million litres
(0.6%)

Flavoured beer and beer-based drinks



PLN 1.9 billion
(9.7%)

268 million litres
(7.0%)

Source: KPMG in Poland based on data from Euromonitor International



those categories had very good prospects for further growth.

Beer mixes such as radler or shandy (i.e. blends of beer and fruit beverages) deserve particular attention as they turned into a real hit in summer months, starting from 2012. This category is highly dynamic and offers high margins, a factor which is important from manufacturers' perspective. However, it is also relatively risky with regard to investments due to its seasonality and very high dependence on weather conditions. Interviews with manufacturers reveal that their popularity might also be a passing fad. However, it seems that beer mixes have proven their status and consumers have accepted them, which means that those products will remain part of the landscape on the Polish beer market.

Lagers still dominant and value for money remains a key choice driver

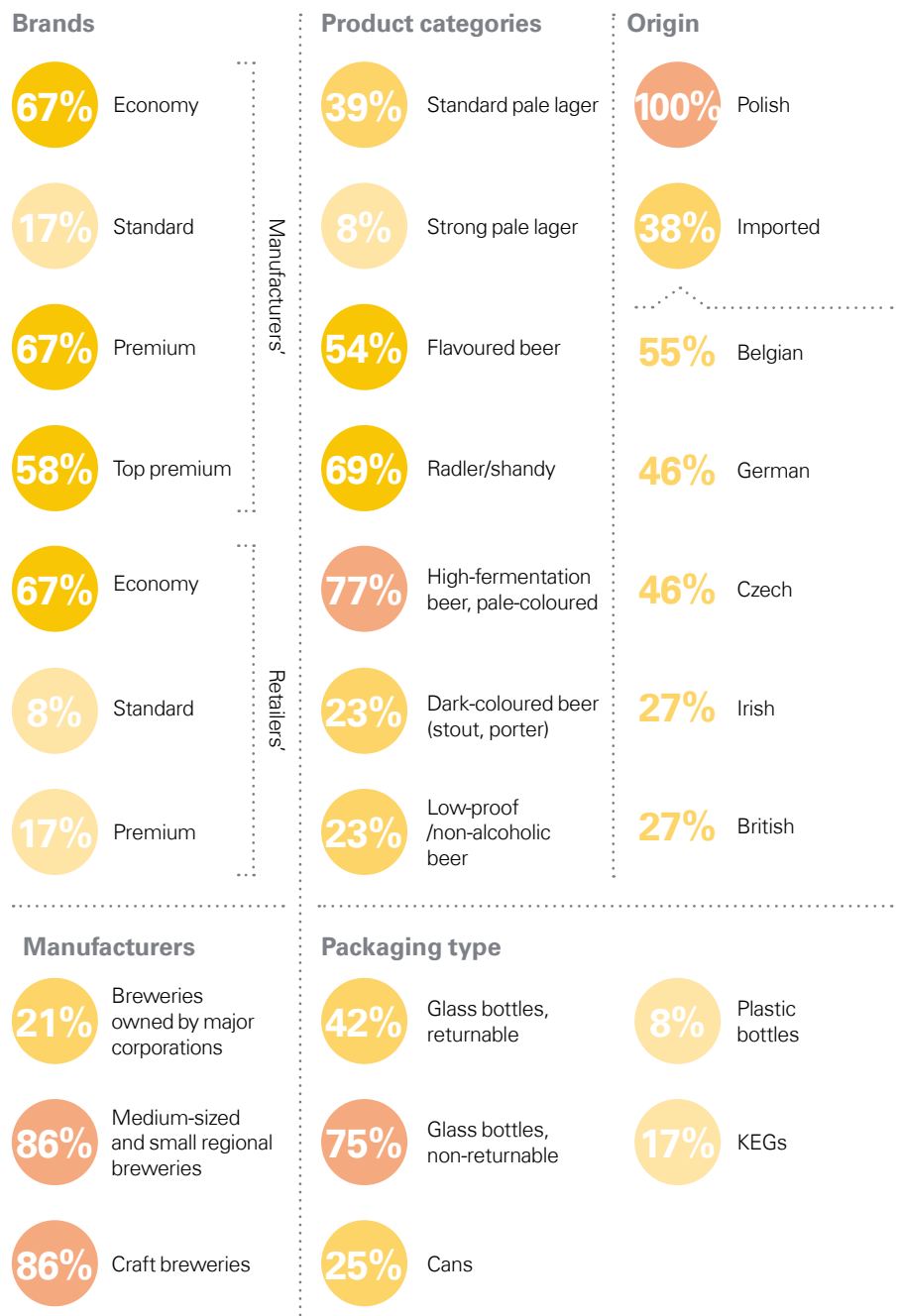
Regardless of consumers' preferences and product innovations proposed by breweries, lager (i.e. low-fermentation beer) still clearly prevails in sales structure. According to Euromonitor, lager accounted for nearly 91% of the total volume in 2013, most of which was driven by standard products (i.e. not craft beers) made by medium-sized and large manufacturers.

However, the category has undergone significant changes in recent last years, the rise of the economy segment being particularly noticeable. Another change is the outflow of consumers from the largest brands of traditional premium lagers, shifting either beyond the lager category or towards standard beer. Representatives of the sector admit that premiumisation and innovation are just one side of trends on the beer market.

The other side consists in consumers seeking the best possible value for

The beer market in Poland

Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)



Source: KPMG in Poland. Based on a survey of companies from the market of alcoholic beverages

Beer

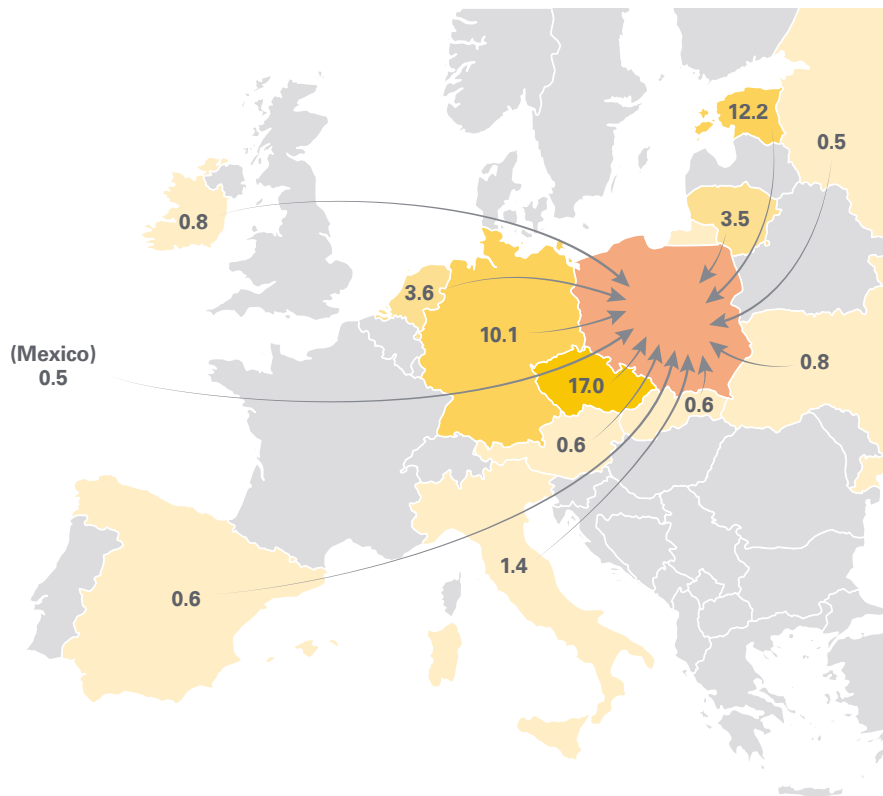
money, special offers and discounts. In fact, consumers admit it openly (three in ten regular or relatively regular beer drinkers identify with this approach).

Interviews with managers from the beer sector reveal that this trend strongly affects performance of the industry and, combined with price pressures from distribution channels and fierce price competition, significantly undermines profitability of the largest segments within the category. These conclusions are confirmed in the juxtaposition of sales volumes and values for the beer market as a whole: they indicate that the average retail price of beer in the dominant off-trade channel nominally declined in the last decade. In particular, this applies to brands from the standard and economy segments as well as some brands positioned as premium products.

The beer sector has no doubt that this trend will continue to influence

The beer market in Poland

Key sources of imports (million litres, 2013)



The data show the country of direct imports, which is not necessarily the same as the country of production.
Source: KPMG in Poland based on data from the Central Statistical Office of Poland (GUS)



Among consumer trends currently observed, the innovation trend is absolutely crucial for the beer market. Loyal, older consumers are loyal to standard lager and are probably going to stay there since this is a safe choice. However, new consumers from younger generations have completely different expectations. They seek new beer styles and new flavours. It is very important for them to have an innovative product that corresponds with their individuality and allows self-expression. Also, the knowledge trend is being reinforced. There is an increasing number of people who brew their own beer at home and are passionate about beer. Obviously, this is still a niche yet it influences the business as a whole and will continue to do so. There are several other potentially important consumer trends which can be explored by the sector, but it will take a lot of time before the sector learns to translate them into business reality. Mixology is one of such trends, for example. It offers enormous opportunities for beer as a category, yet completely unexplored so far.

Tomasz Bławat

President of Management Board, Carlsberg Polska





the market. The interviewed brewing companies indicate economy brands (both manufacturers' and retailers' brands) as ones with the best growth prospects. This opens new opportunities for many companies, which can utilise their production capacities to make high-volume products, also upon orders from retail chains. On the other hand, the growing importance of economy brands exerts additional pressure on standard brands, especially those positioned in lower price bands.

Poles choose Polish beer

Irrespective of current trends on the Polish beer market, one feature remains unchanged: Polish consumers drink mainly beer which has been made in Poland. Years-long attempts to convert Polish consumers to drink international brands have worked but the proportion of imported beer in total consumption remains rather low (however, it should be remembered that some international brands sold on the Polish market are actually made in Polish breweries). In 2013, a total of 54.2 million litres of beer were imported to Poland, which accounted for approx. 1.4% of total retail sales in the category.

The increase is evident: in 2004 imported beer accounted for only 17.1 million litres and 0.6% of total sales. Those figures, however, indicate more than just growing popularity of strong, international brands. Discounters have played a considerable role in driving the volume of imported beer as they run high-scale imports, mainly from the Czech Republic and Germany, and partly under private labels.

” *The increasing affordability has been the main growth factor on the beer market in Poland during the past years. Beer prices have not changed for years because consumers, despite their growing purchasing power, are highly price sensitive. Additionally, there is the pressure associated with sales volume being shifted to modern distribution channels and the consolidation of traditional trade. There are also other important trends on the markets. Although they do not translate into very high volumes, they allow companies to offer higher-value products and generate profits. The first trend is the focus on innovation, which translates the popularity of flavoured beers and mixes of beer with non-alcoholic beverages, both readily embraced by consumers. Another important trend is the rising popularity of regional and craft beers. Especially the latter category allows companies to broaden their range in the premium segment. Such offers appeal to more affluent consumers who seek the alternatives to traditional lager.*

Executive responsible for marketing in a large brewing corporation



Beer

3.3 Manufacturers and importers

While still highly concentrated, the Polish beer market has been deconsolidating year after year. Smaller players are growing stronger, among them medium-sized and small regional breweries and small craft breweries. In 2013, their brands accounted for over 10% of total beer volume sold in Poland.

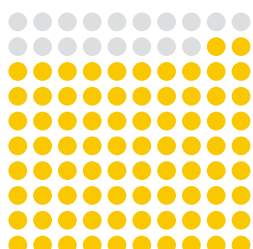
A concentrated market, deconsolidating year after year

As a result of consolidation processes that took place in 1990s, the Polish beer market became highly concentrated. A considerable market share is controlled by three major brewing companies owned by international corporations: Kompania Piwowarska (SABMiller), Grupa Żywiec (Heineken) and Carlsberg Polska.

However, the position of the largest players has weakened gradually. According to Euromonitor International, their share in total sales volume of beer in Poland dropped from nearly 88% in 2008 to 82% in 2013. The lost market share was captured by two groups of brands: retailers' private labels on the one hand and brands owned by smaller manufacturers on the other. The former increased their market share from 5% to 8% and the latter expanded from 7% to over 10%.

The beer market in Poland

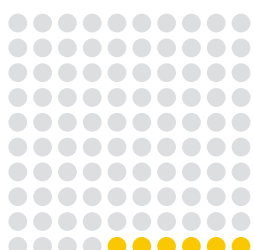
Segments, key players and their market shares (2013/2008*)



Major brewing companies owned by multinational corporations

Kompania Piwowarska (SABMiller), Grupa Żywiec (Heineken), Carlsberg Polska

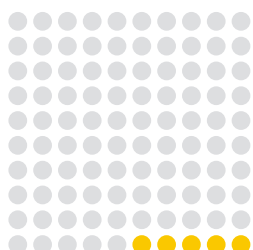
81.8%/87.6%



Independent medium-sized breweries

Van Pur, Perła Browary Lubelskie

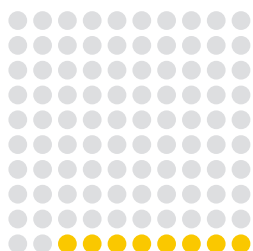
5.6%/4.1%



Regional and craft breweries (examples)

Browar Amber, Browary Regionalne Jakubiak, Bieszczadzka Wytwórnia Piwa Ursa Maior, Sulimar, Browar Gontyniec (grupa), Browar Fortuna, Browar Pilsweiser (Grybów), Browar Jabłonowo, Browar Jagiełło, Browar Koreb, Browar Kormoran, Browar Krajan, Browary Łódzkie, Browar Namysłów, PINTA, Browar Witnica, Browar Zamkowy Racibórz

4.7%/3.1%



Retailers

Private labels

7.9%/5.2%

*Also included are brands owned by other manufacturers at that time which changed hands in the meantime
Source: KPMG in Poland. Based on data from Euromonitor International and own research



Growing importance of regional and craft breweries

In 2013, a share of 5.6% in the retail market belonged to two independent, medium-sized corporations: Van Pur and Perla – Browary Lubelskie. Both companies were once established as regional breweries but nowadays operate on a large nationwide scale.

At the same time, smaller breweries experienced a real boom in recent years. Some of them continue brewing traditions while others were reactivated or newly established. They offer not only regional lagers but specialty beers as well, manufactured using hand-craft methods. These companies are very flexible in addressing consumers' expectations: they respond quickly to trends that appear in their niches and are exceptionally innovative with new brands and product varieties. Importantly, they are moving beyond the role of merely regional suppliers and expand their distribution on nationwide scale, which earned them a 4.7% share in the total beer volume in 2013.

The expansion of small breweries has been among the most important and most interesting trends on the Polish beer market in recent years. It was those small companies which largely initiated the wave of product innovations that swept the Polish market in recent years: they initiated the popularity of some flavoured beers (e.g. honey flavoured), exploration of beer variants other than standard lager, and they also drew consumers' attention to manufacturing technologies, preservation and raw materials used. As a result, together with some of the largest brewing corporations, they laid a foundation for the beer connoisseur culture in Poland.

“After many prosperous years and two-digit year-on-year growth rates, the market has reached saturation and it is hardly probable that the current consumption level will be exceeded in future.

This threshold is reserved for 'historical' beer consumers such as Czechs or Germans. The managing boards of the largest market players strive to give a boost to their companies but I am convinced that this can only be achieved via increased profitability and, consequently, a higher value of the market. However, everyday life shows something else: the market value keeps shrinking as a result of the falling average beer prices in retail. We are living in interesting times, where local breweries experience dynamic growth while international corporations copy the regional character of beer in many ways, trying to capture a slice of the pie. On the other hand, the golden era of regional breweries is over due to competition that has grown very strong over the years. As a result, they look greedily at the idea of nationwide distribution and availability. All this leads to a paradox: both parties copy each other, although in slightly different areas. The winners will be the ones who have a better idea to build consumer loyalty and anticipate the changing trends well in advance.

Jan Żytko

Board Member, Browar Gontyniec



“A very large number of Poles are truly interested in beer, they follow beer blogs and vlogs, they want to know who and where brews their favourite beer, and how. Obviously, this is only a proportion of total consumers but they exert a significant impact on how the category is perceived by 'ordinary' consumers. This is evident in comments posted under beer news online. Lovers of 'real' beer have achieved a strong position in communication and opinion-making, and all the manufacturers, including the largest ones, must take that into account. Except for companies that focus on making beer for discounters, all breweries are working hard to convert sophisticated consumers to their brands. For some breweries this will be the core of their business and only a fig leaf for others.

Ziemowit Fałat
Co-owner, PINTA



Beer

3.4 Retail distribution channels

Compared with other categories of alcoholic beverages, beer is fairly frequently sold via the on-trade channel. Nevertheless, retailers continue to be the main distribution channel. Among them, small retail shops still play a dominant role, yet they are gradually losing customers to discounters and supermarkets. Manufacturers expect that this trend will persist in future.

On-trade strong among other categories but weak versus Europe

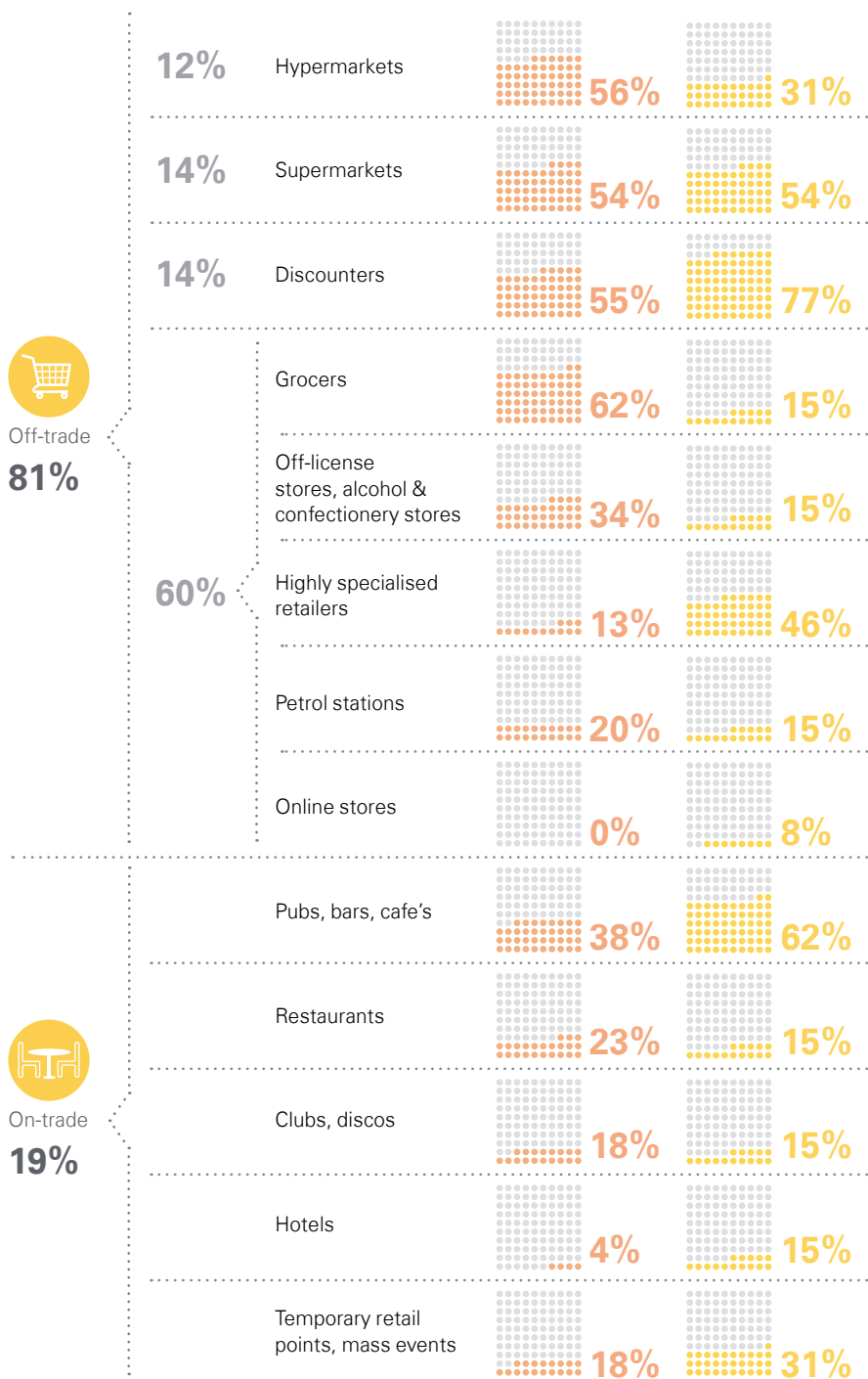
In 2013, the on-trade channel, i.e. mainly pubs, bars, cafés and restaurants, accounted for 19% of retail sales volume in Poland. This is the largest proportion among all categories of alcoholic beverages. A comparison with other countries reveals, however, that the role of the on-trade channel on the Polish beer market is relatively low. According to Euromonitor International, Hungarians and Slovaks buy almost 30% of their beer on-trade, Czechs buy 42% and the British get as much as 52% of their beer via the on-trade channel.

Our survey has shown that 38% of beer consumers bought it in a pub, bar or café during the past year. Poles are quite likely to consume beer in restaurants (23% of those surveyed), in clubs, discos and at temporary points of sale (18% each).

As Poles grow richer and are ever more willing to go out, a gradual increase of the importance of the on-trade channel in the distribution structure can be expected in the long run. However, it is unlikely that Poles revolutionise the market to catch up with their southern neighbours. Manufacturers see the greatest growth potential in pubs and bars, mostly small and medium-sized breweries that

The beer market in Poland

Retail distribution channels



X% – share of this channel in sales volume (2013)

● **Current popularity** – percentage of consumers who buy beer in this channel

● **Growth potential** – percentage of companies which believe that this channel will grow in importance on the beer market (the respondent could indicate max. 3 channels)

Source: KPMG in Poland. Based on data from Euromonitor International, a consumer survey and a survey of companies from the alcoholic beverages sector



have not been commonly present in this channel (as it has been monopolised by the largest manufacturers). On the other hand, the latter admit that they do not plan any significant further investments in the on-trade channel, as building a strong position involves high costs and this distribution channel is relatively small.

Hypermarkets and small retailers losing the battle to discounters and supermarkets

Gradual yet thorough changes in the off-trade distribution channels are very important for the beer market. According to Euromonitor International, the share of discount chains in the total sales volume off-trade increased from 8% in 2008 to 14% in 2013, and the share of supermarkets rose from 10% in 2008 to almost 14% in 2013. This growth happened largely at the expense of hypermarkets (down from 14% to 12%) and small retailers (down from 67% to 60%). Respondents' comments confirm that supermarkets and discount stores have become as popular as hypermarkets for consumers who want to buy beer. Manufacturers see those channels as the source of their greatest growth potential.

Despite those changes, small retailers continue to be the main distribution channel for beer, with networked shops playing an increasing role and the position of independent retailers diminishing. Beer consumers are highly attached to this channel: as many as 62% of them buy beer at the grocer's and 34% buy it in off-licence stores. Beer is purchased less frequently at petrol stations (20%) or in highly specialised stores (13%). Nevertheless, the latter deserve special attention. Although beer manufacturers generally do not hope for any sales growth through small-scale retailers, specialist stores are an exception: nearly a half of the interviewed companies expect to see growth in the sales of beer via those retailers.

” *Poles just love brands. For Poles, an unbranded product seems a bit worthless. On the other hand, they expect very low prices. Discount chains offer good brands at discount prices. From the manufacturers' perspective, those chains obviously have very strong bargaining power, which creates pressure on margins. On the other hand, they offer economies of scale and enable manufacturers to sell enormous quantities under uniform commercial and logistic terms and conditions, which is a great advantage and offers broad access to the market. Despite the expansion of modern distribution channels, small points of sale still prevail in the category of beer. One often hears that it is the best channel for us because it allows us to get high margins. However, the difference between traditional trade and chains is becoming blurred for us. When a large distributor supplies retailers, the pressure on prices is not weaker than in the case of a major chain. The weakness of HoReCa is a permanent element of beer distribution in Poland. Traditionally, the beer sector has supported this channel very much but draft beer doesn't show positive growth rates at present. Volumes in this channel will increasingly switch towards bottled beer.*

Tomasz Bławat

President of Management Board, Carlsberg Polska



” *Exports are very important for our business, especially when it comes to markets such as UK, Germany, USA or Canada. It is quite natural that Polish brands travel with Polish consumers who go abroad. To us, this is a chance for growth. As for consumers who are not linked to Poland, it would be rather difficult to promote Polish brands among them. As a country, Poland does not have such a reputation for making beer as, say, the Czech Republic. It doesn't mean that promoting Polish beer abroad is not possible. After all, consumers everywhere are interested in trying new products that are exotic from their point of view. For example, we recently sent significant batches of our beer to South Korea and China even though those countries don't really have a strong Polish diaspora.*

**Executive responsible for finance
in a large brewing corporation**

Beer

3.5 Production and exports

Although the majority of beer manufactured in Poland is sold on the local market, foreign markets are becoming an ever more important target destination for Polish manufacturers. As much as 6.4% of beer manufactured in Poland was exported abroad in 2013 and the odds are that the role of exports will be growing.

In 2013, a record amount of beer was manufactured in Poland, reaching 4,000 million litres. It was by 33% higher than in 2004 and by 8% more than in 2008.

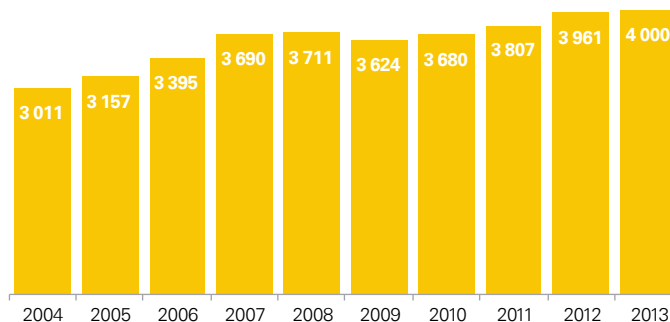
The production was driven by the growing domestic market as well as exports. In 2004, when Poland joined the EU, we exported 60 million litres of beer, which accounted for approx. 2% of the output. In 2013, exports accounted for 6.4% of the total output, i.e. 254 million litres. This trend is likely to persist. As many as 71% of the surveyed beer companies think that the Polish beer will become increasingly popular on foreign markets.

The Polish community abroad as well as current migrations have undoubtedly helped to drive the sales of Polish beer on foreign markets. Poles who live and work abroad are happy to choose brands from their country of origin, which explains the considerable exports to the United Kingdom, Ireland, Germany, the United States or Canada.

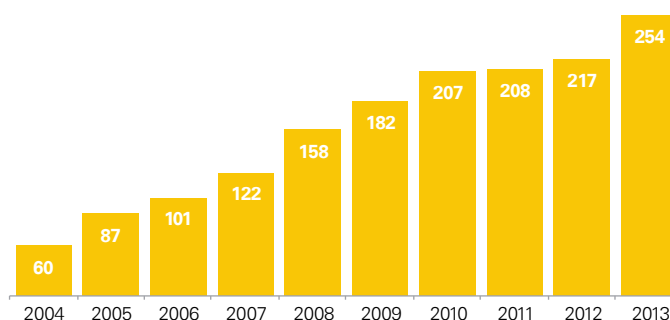
However, these countries account only for a proportion of exports. Considerable volumes of Polish beer are exported to the Czech Republic, Slovakia, Hungary, Romania or Italy, i.e. to countries with a relatively small population of citizens of Polish origin. On the one hand, this stems from the fact that international brands are manufactured in Poland, and on the other, from the growing importance of Polish brands on foreign markets.

The beer market in Poland

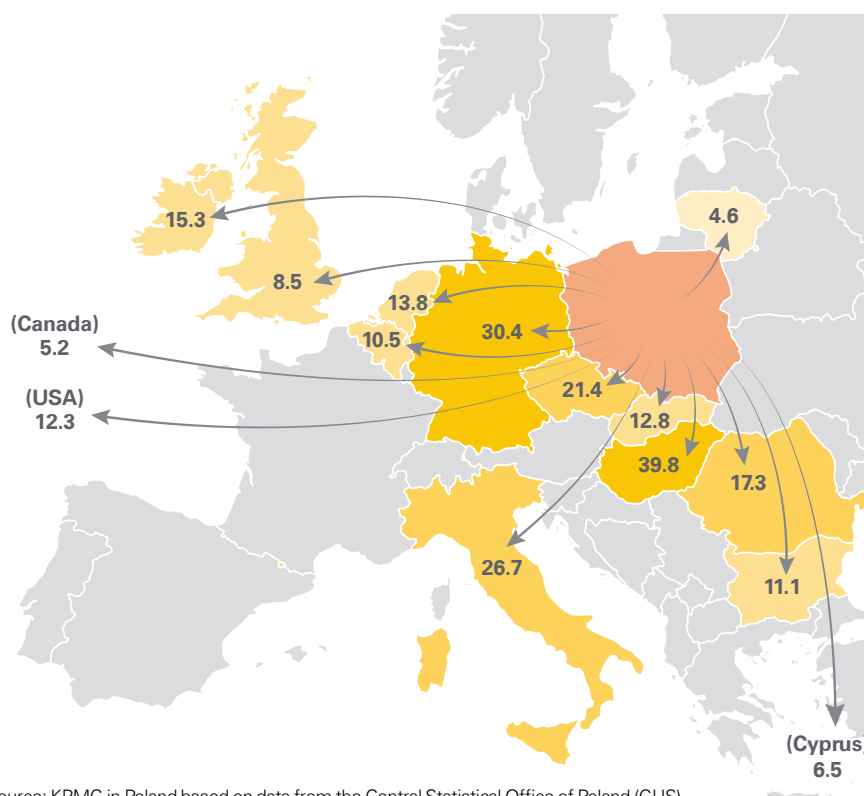
Production (in million litres)



Exports (in million litres)



Key export destinations (in million litres)



Source: KPMG in Poland based on data from the Central Statistical Office of Poland (GUS)



3.6 Situation of companies

Fierce competition and price pressures from distribution channels and consumers considerably impact the situation of companies operating on the Polish beer market. Although the industry managed to increase its profitability slightly in 2013, only one in seven of the surveyed companies views its financial situation as very good.

Margins remain low

Only 14% of the surveyed beer manufacturers describe their financial situation as definitely good and 43% as fairly good. Others view it as neither good nor bad. The main reason behind those fairly unenthusiastic opinions is the negative trend in the sector's profitability, observed for almost a decade.

Key problems: fierce competition and pressure from distributors

Margins have been declining for many reasons, with two of them being particularly important. Nearly all the interviewed beer manufacturers (86%) indicate strong competition as the key factor that affects their performance. This applies to the segment of large manufacturers as well as small and medium-sized regional enterprises.

Cooperation with retail channels is another problem, mentioned as a barrier by 57% of the surveyed companies. The problem lies not only in difficult or costly access but also in strong price pressures from the largest clients. The risk associated with weather conditions is another constant yet unavoidable problem for the beer industry. This barrier was mentioned by 57% of the surveyed companies.

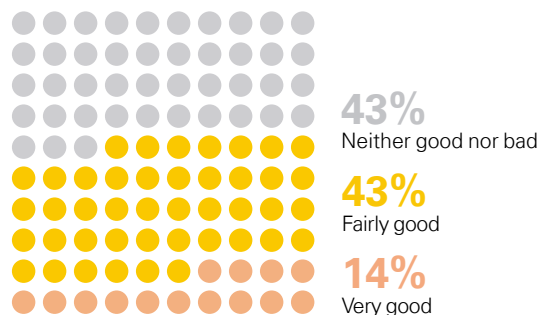
The beer market in Poland

Companies' financials (in PLN billion)



Given a change in classification, the data for 2004–2009 and 2010–2013 are not fully comparable.
Source: KPMG in Poland based on data from the Central Statistical Office of Poland (GUS)/Effect

Companies' assessment of their own financial standing

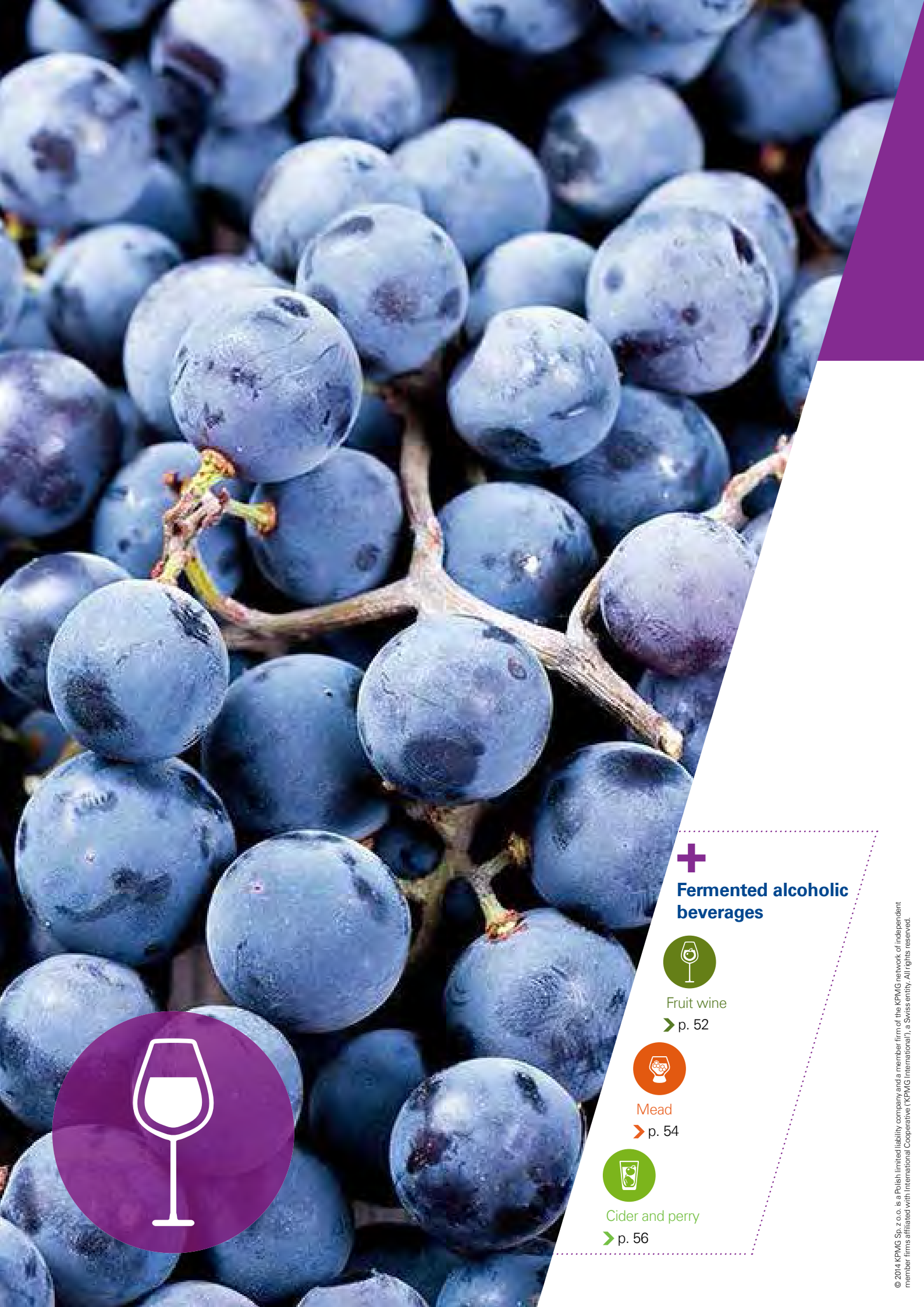


Main factors affecting companies' performance and growth



Companies were asked to identify up to 4 key barriers

Source: KPMG in Poland. Based on data from a survey of companies from the alcoholic beverages sector



Fermented alcoholic beverages



Fruit wine

➤ p. 52



Mead

➤ p. 54



Cider and perry

➤ p. 56

4

Wine

4.1 Size and condition of the market

Grape wines have been a true discovery for Poles in recent years. Since 2004, their sales have increased by more than a half in terms of quantity, and the odds are that this upward trend will persist. In turn, fortified wines and vermouths are doing far worse. Despite increases, the wine market in Poland remains relatively small compared to the rest of Europe: in 2013, an average adult Pole purchased a total of 5.5 litres of grape wines, fortified wines and vermouths, which meant 172.9 million litres worth PLN 3.5 billion for the market as a whole.

More than 14 million Poles choose wines fairly regularly

During the preceding month, 35% of adult consumers drank grape wines, fortified wines or vermouths and 76% had them in the course of the past year. Poles usually drink wine in the company of family or friends, while partying or celebrating some occasion. However, there is also a group of wine consumers (41%) who drink it on no special occasion. Almost a half (45%) of adults drink wine at least several times a year, among them more women (55%) than men (35%). Education and place of residence are also important factors influencing consumption.

Poles discover grape wines

In 2013, Poles bought 142.5 million litres of grape wines (still and sparkling ones) paying a total of PLN 2.6 billion, which was by 56% more than in 2004 (volume-wise). The market of fortified wines and vermouths is growing at half the pace: the volume in 2013 amounted to 30.5 million litres, with a value of PLN 0.9 billion. Despite the rising popularity of wines, the Polish market remains very small compared to other European

countries. In 2013, an average adult Pole bought 5.5 litres of grape wine, fortified wine and vermouth, spending an equivalent of EUR 27. During the same year, an average adult Czech purchased 21.4 litres of wine worth EUR 104, whereas Slovaks bought 19.1 litres worth EUR 145. Much higher sales volumes and values per an adult are recorded also in Germany and the United Kingdom, not to mention typical wine-making countries from southern Europe.

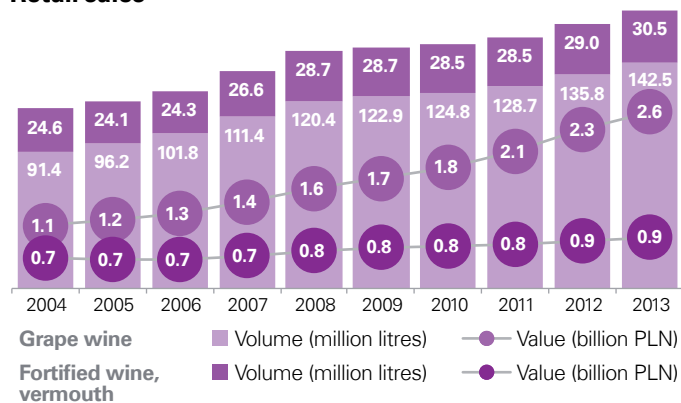
Further growth of grape wine sales almost certain

A comparison with other European countries clearly shows that the Polish wine market (especially in grape wines) is at an early stage and has many years of growth ahead before reaching maturity. Another token of this low maturity of the Polish market can be seen in the sales structure, with a relatively large share of fortified wines and vermouths as well as sparkling wines. Companies predict that the category of grape wine may expand by nearly 7% annually for the next two years. However, fortified wine and vermouth are expected to either stagnate or decline.

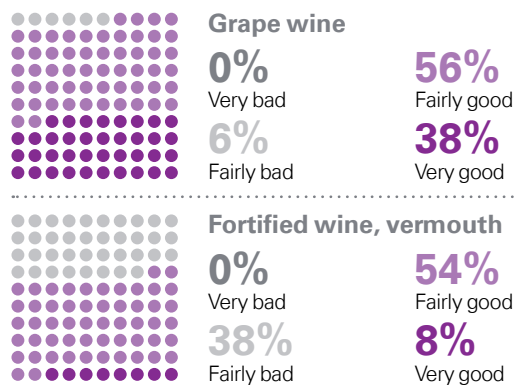
Wines

The market of grape wine*, fortified wine and vermouth in Poland

Retail sales



Companies on current market situation



Companies on projected changes in sales volume

Grape wine | 2014



2015



Fortified wine, vermouth | 2014



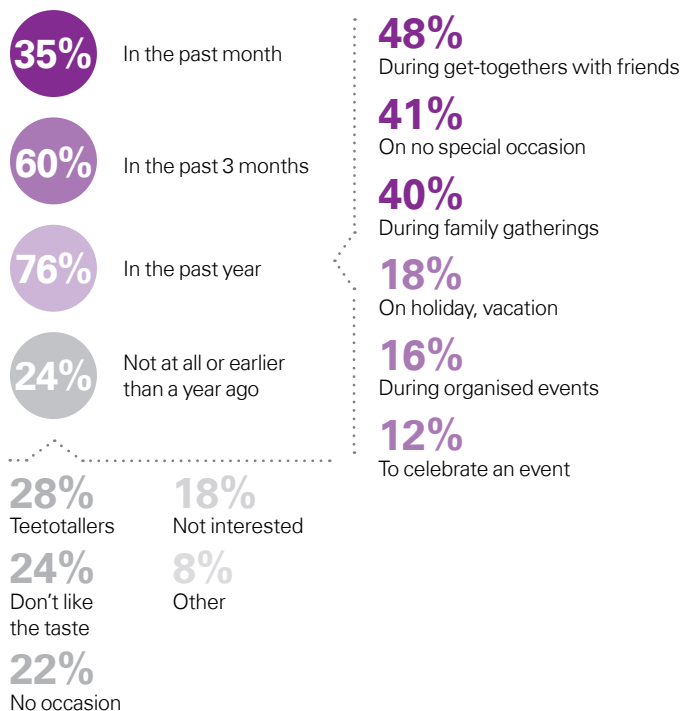
2015



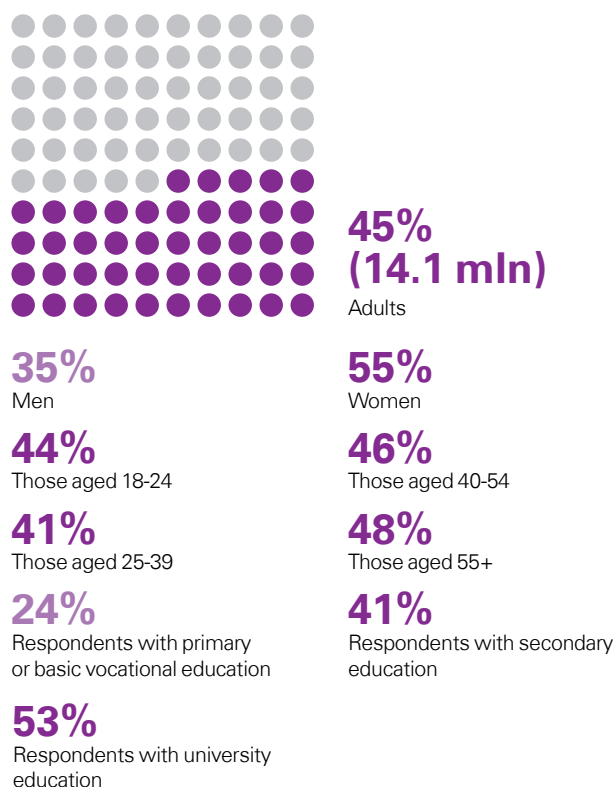
Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

Consumers of grape wine, fortified wine and vermouth in Poland

Adult consumers drank wine



Consumers who had wine at least a few times during the year



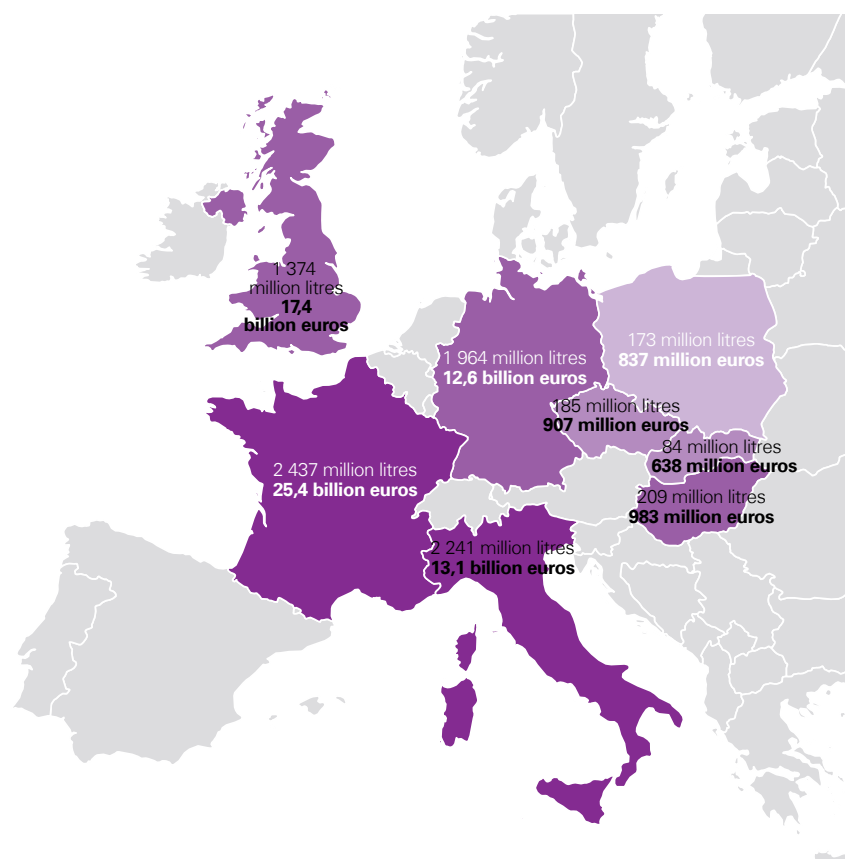
Source: KPMG in Poland. Based on a consumer survey

*If not specified otherwise, the category of grape wine in this material includes both sparkling and still wines

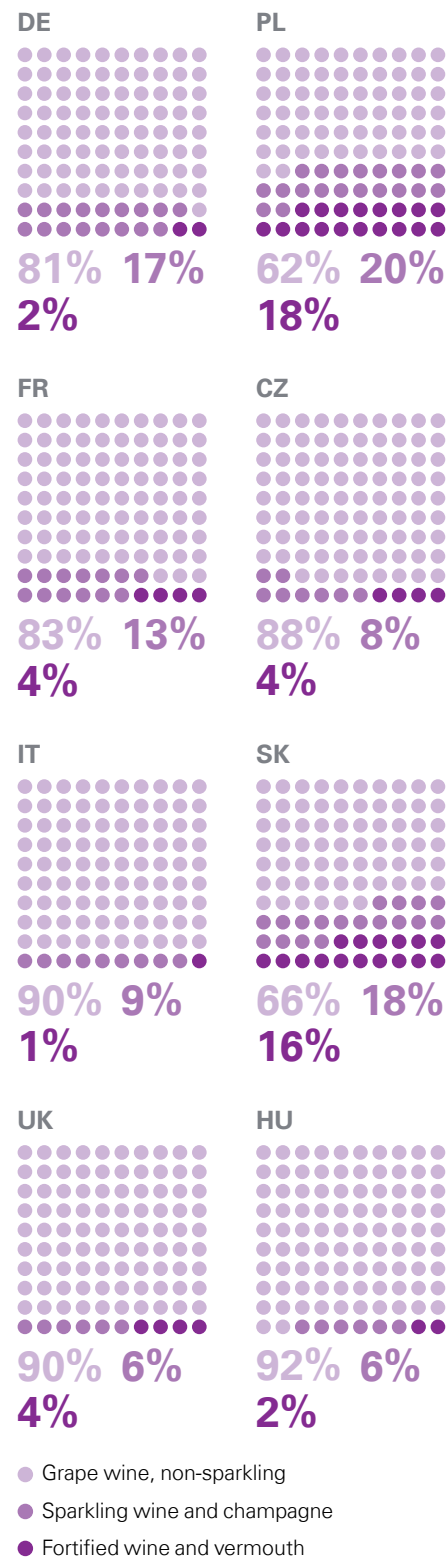


The market of grape wine, fortified wine and vermouth in Poland

Value and volume of retail sales (2013)

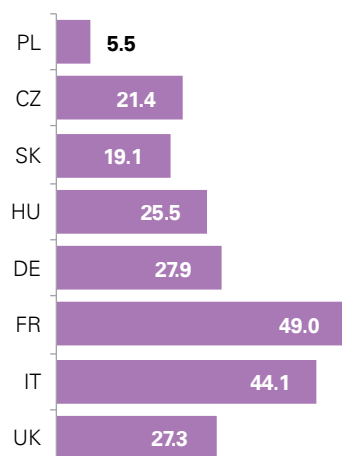


Sales volume

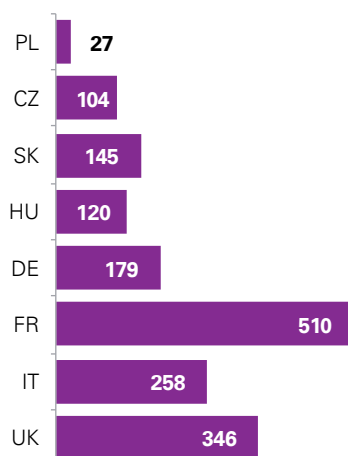


Sales per person at the legal age for alcohol purchase

Volume (litres)



Value (EUR)



Wines

“The market of grape wine in Poland, although still very small, has been consistently expanding for many years and the odds are that it will continue to grow. Even though Poland is not traditionally a wine-drinking country, all economic and cultural factors seem to propel this growth. Consumers' income is rising, making wine much more affordable. This plays a particularly important role in lower price bands (up to approx. PLN 15), where we saw hardly any reasonable products a few years ago but now consumers can choose from a wide variety of wines. Perhaps the most important development is that thanks to the emergence of good wines in low- and medium-price segments many consumers no longer see wine as a product for special occasions or as a luxury. Instead, consumers have incorporated wine drinking into their daily lives. It is those consumers and those products that account for a large part of sales volume in Western markets.

Wojciech Bońkowski
Editor-in-Chief, winicjatywa.pl



“We are often wrong to think that everyone in wine-drinking countries or in other parts of Western Europe has extensive knowledge about wine or is a connoisseur. This is not quite the case. Many people in Western Europe have no complexes about wine: for them, good wine is the wine that tastes good. The core of those markets consists of inexpensive wines, costing a few euro per bottle. More expensive wines represent just a small proportion of the market. Despite various crises affecting the industry, the wine market in Poland has been developing at a very stable pace. One reason is that wine has become a staple for many Poles and is gradually starting to play the same role as in the West. In mid-1990s wine was presented by distributors as an exclusive product and this is how it was perceived by consumers. In fact, the outcome was quite opposite to the intentions. Luckily, people soon understood that this approach was wrong. At present, thanks to discounters and smaller chains which started to offer a broad range of cheap products wine has become easily affordable: it is easily available on a shelf and, most importantly, its price does not scare the Polish consumer off. Also, communication around wine has improved. As a result, wine is gradually turning into an item on the daily menu for many Poles. From this enlarged consumer population a group of consumers with higher aspirations will emerge: they will go for premium products and join the narrow circle of sophisticated wine drinkers.

Tomasz Prange-Barczyński
Editor-in-Chief, Magazyn WINO



“In terms of per capita consumption of grape wine, Poland falls behind most European countries. Our market undoubtedly has enormous potential, which should be expanded and utilised. We can actually see it happening right now: an increase in consumption is already observed in HoReCa and in retail. Moreover, we can expect this market to grow at a minimum rate of 5% per annum until 2017. Wine drinking culture in Poland has evolved as Poles switch from spirits to alcoholic beverages with lower ABV figures. Importantly, we see that wine is increasingly becoming part of the daily menu, and is consumed with meals at home or in restaurants. Attitudes towards wine have been changing for the last dozen or so years, also because Poles have had more opportunities to travel around Europe and explore cultures and culinary customs in countries with the strongest traditions of wine making and wine drinking. After all, the Italian, French or Spanish cuisine is inextricably connected with wine.

Dorota Rozbicka
B2B Sales Manager, Wineonline





4.2 Consumer and product trends

Polish consumers are discovering classic grape wine, looking for more healthful products of higher quality. However, they also pay close attention to value for money. Thanks to a wide range of inexpensive wines emerging in distribution, the category has become much more affordable for the mass consumer, losing its previous elite character.

Consumers increasingly aware but also increasingly critical of prices

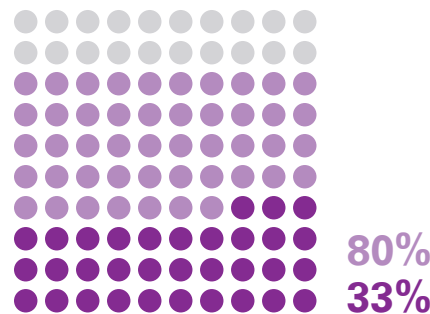
The dynamic expansion of wine category (especially grape wine) has been facilitated by increasing consumer wealth and their rising awareness as well as the increasing focus on health-related aspects of alcohol consumption.

As a result, consumers opted for wine as an aspirational category, additionally perceiving it as an element of a healthy lifestyle. Other important factors driving interest in wine included continuous consumer education, often taking place during foreign travel, as well as culinary trends (in particular, the popularity of Mediterranean cuisine). Managers from the Polish wine sector are deeply convinced that these trends will continue to drive the category.

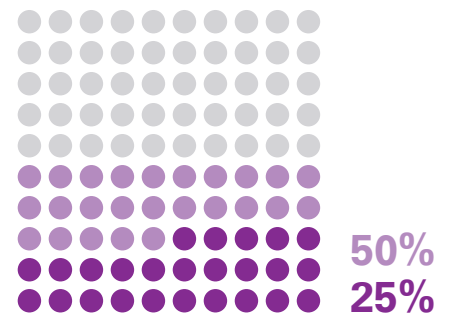
The market of grape wine, fortified wine and vermouth in Poland

Key consumer trends

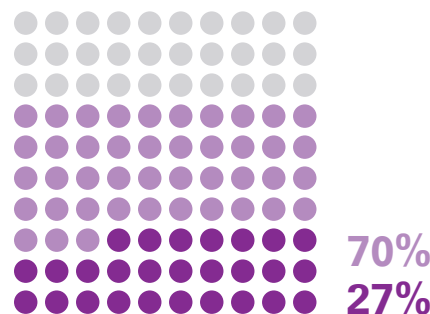
Premiumisation



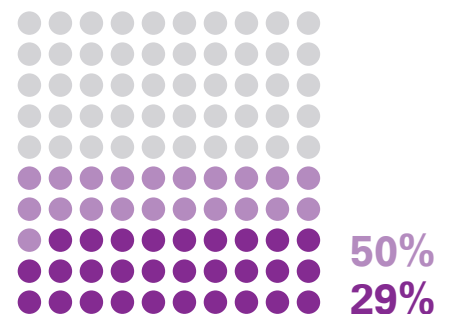
Health and well-being



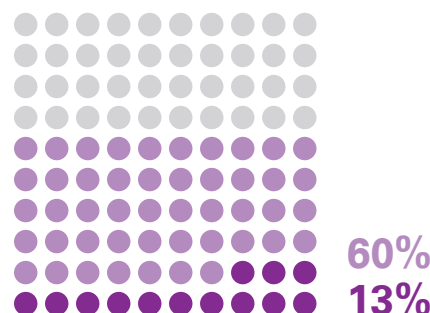
Value for money



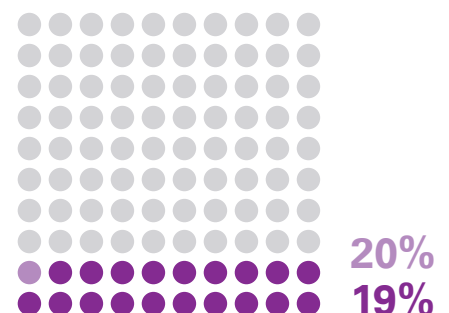
Culinary interest



Knowledgeable consumers



Individualisation and self-expression



- **Future impact** – percentage of companies which believe that this trend will play a key role for the category in the next two years
- **Current share** – percentage of consumers of wine (regular or fairly regular) who strongly identify with this attitude

Consumers and companies were asked to identify max. 4 key attitudes/trends.

Source: KPMG in Poland. Based on a consumer survey and a survey of companies from the market of alcoholic beverages

Wines

On the other hand, the growth of the grape wine market would not have been possible without an improved range of low- and medium-priced wines. Discount chains have played an enormous role in this process, turning wine into one of the key categories where they put considerable investments. Also, specialised importers developed an offering of relatively inexpensive wines. This was accompanied by gradually shrinking margins across the whole sector. As a result, grape wine became much more affordable for Polish consumers.

Wine consumers openly admit that they actively seek the best price and are happy to go for special deals and bargain prices. The interviewed importers are almost unanimous in saying that the value-for-money trend will continue to exert powerful influence on the market.

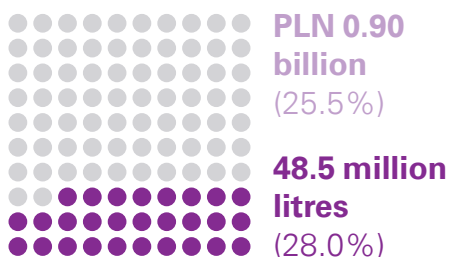
Still grape wines as a sales booster

Growth on the wine market is propelled mainly by still (non-sparkling) grape wines. In 2013, their sales reached 107 million litres, i.e. by 73% more than a decade earlier. The total value of retail sales in this category amounted to PLN 2.1 billion in 2013.

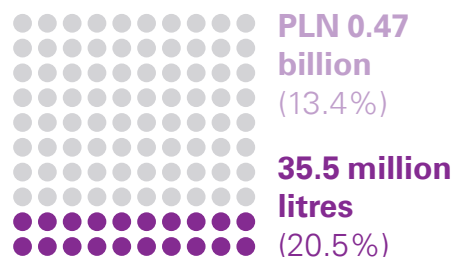
The market of grape wine, fortified wine and vermouth in Poland

Retail sales (2013)

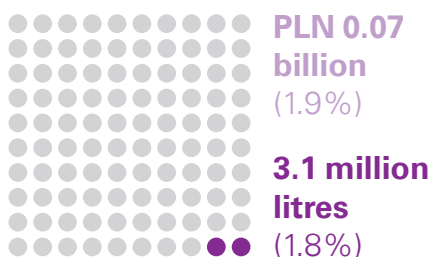
White grape wine, non-sparkling



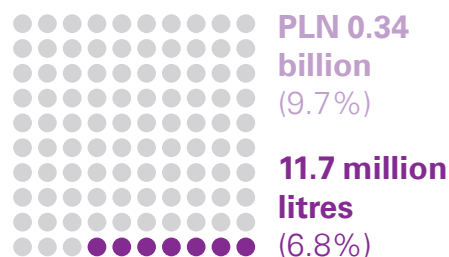
Sparkling wine and champagne



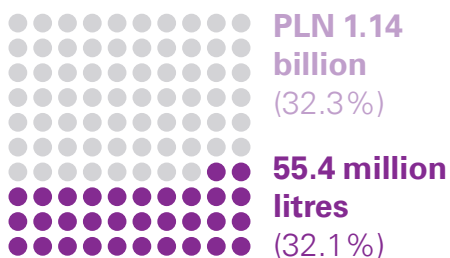
Rosé grape wine, non-sparkling



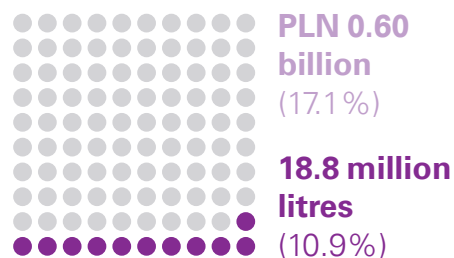
Fortified wine



Red grape wine, non-sparkling



Vermouth



Source: KPMG in Poland based on data from Euromonitor International

”

To be successful, a business operating in the segment of fine wines must be based on thorough knowledge, something that is accumulated for years. It is very important to make all customers comfortable: enjoyable shopping experience, professional yet friendly staff and a sense that the price paid fully corresponds with the quality of wine. The latter element is particularly important because it builds customers' confidence in the wine distributor. The pricing policy must be clear and transparent, and prices must be realistic, set at the European level, which means that margins must be reasonable. In my opinion, it is not a good solution to impose high margins first and then run aggressive promotional efforts and offer discounts. With that kind of policy, a business will not succeed in building customers' confidence and loyalty, both of which are the foundation of solid brand equity.

Robert Mielżyński

Wine importer, owner of wine bars and shops
'Mielżyński Wines Spirits Specialties'





As regards the choice between red and white wine, Poles remain consistent: red wine has been their preferred choice for years. However, nowadays they increasingly explore classic dry wines instead of sweet and semi-sweet wines that used to be favoured in the past. Also, the category of rosé wine, albeit small so far, has recorded very dynamic growth.

Sparkling wine still popular

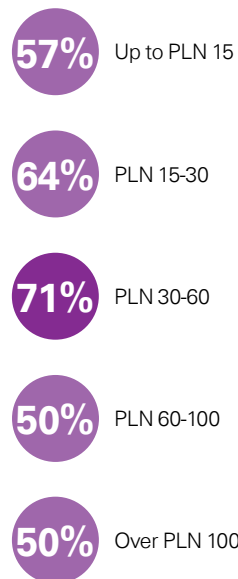
Sparkling wines still play an important role on the Polish wine market. Although their sales have not expanded as quickly as the sales of still wines in recent years, sparkling wines still account for over 20% of the total volume in grape wine, fortified wine and vermouth. This stems from the fact that wine as a category remains very small, so the tradition of buying sparkling wine for New Year's Eve or other private celebrations plays an important role for the market as a whole.

The interviewed distributors and retailers confirm in unison that Poles increasingly opt for sparkling wine also without any special occasion, and that the quality of alcoholic beverages consumed in recent years has improved considerably. Despite systematic growth, classic champagne remains an absolute niche. According to Comité interprofessionnel du vin de Champagne, 265.8 thousand bottles of champagne were sold to Poland in 2013. The Eurostat data reveal that indirect imports also take place: approx. 43 thousand bottles of champagne were imported to Poland from Germany alone in the same year.

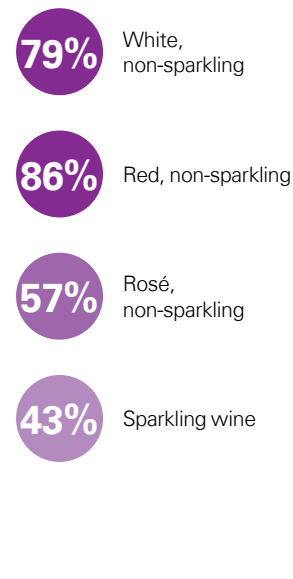
Companies on the situation of grape wine in Poland

Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)

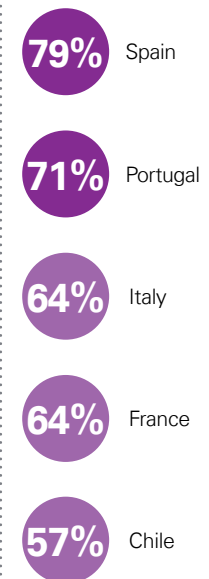
Price segments



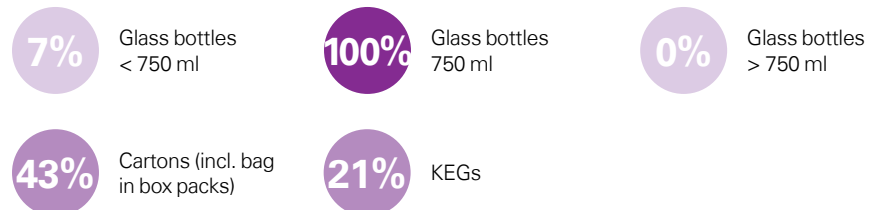
Product categories



Origin



Packaging type



Source: KPMG in Poland. Based on a survey of companies from the market of alcoholic beverages

Wines

Vermouth in stagnation, fortified wine growing slowly

The sales dynamics in the segment of fortified wine and vermouth was significantly lower than in the case of grape wine.

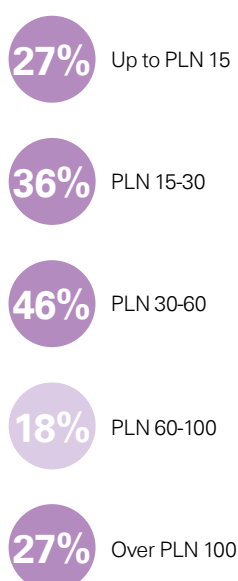
Vermouth sales basically stopped growing after 2008 and this category is unlikely to expand much further. Prices on economy products are very low, which means it will be difficult to boost sales volume through promotional pricing in this segment. Distributors of premium products, on the other hand, focus on earning higher margins, abandoning the idea to compete with local companies in terms of prices. In 2013, sales of vermouths amounted to PLN 0.6 billion at the volume of 18.8 million litres.

The situation of the fortified wine market is better. The sales have been growing slowly year to year. In 2013 the sales achieved 11.7 million litres. However, this category is very heterogeneous: it comprises imported wines such as porto, sherry and malaga (all of which are part of a niche yet are gradually 'discovered' by Poles) as well as domestically produced wine-based flavoured alcoholic beverages (made not only from grape wine) sold under the name of 'grzaniec' (mulled wine) or 'nalewka' (tincture).

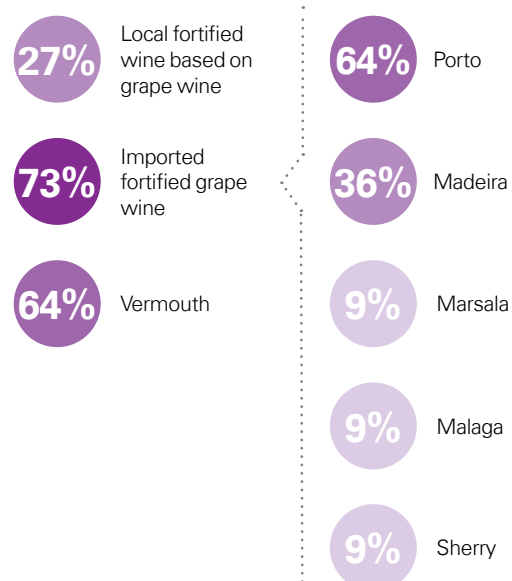
Companies on the market of fortified wine and vermouth in Poland

Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)

Price segments



Product categories



Vermouth



Source: KPMG in Poland. Based on a survey of companies from the market of alcoholic beverages



The wine market in Poland has been expanding steadily for many years, both in terms of volume and value. Table wines are the largest and the fastest-growing segment of that market whereas vermouth and sparkling wines are stagnant, with negligible increases in recent years. Also declining is the consumption of fruit wines which used to be a substitute for grape wines in the past but have now evolved into a marginal segment, enjoying little appreciation. If we compare the consumption volumes in Poland and western countries, we can see that Poland still has very large potential for further growth in wine drinking. As regards table wine, rosé has recorded the most impressive growth, yet red wine is definitely the most popular segment. We see an increasingly popularity of less sweet wines (dry and semi-dry types). Consumers increasingly appreciate wines from France, Portugal, the USA or Spain. In terms of prices, rising popularity has been recorded for premium wines (over PLN 20) alongside the superpremium segment (priced above PLN 30). This trend can also be noticed in sparkling wine, where premium products (over PLN 20) record the fastest growth, and the latter also includes the robustly growing champagne segment.

Robert Ogór

President of Management Board, Ambra





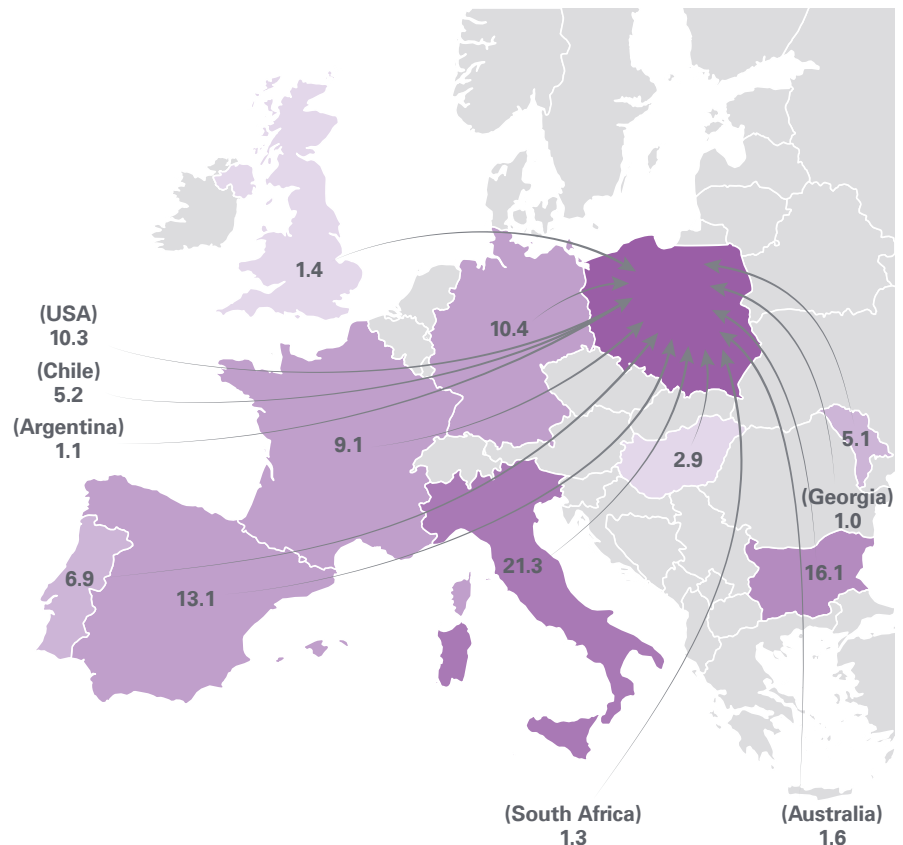
European wines prevail

According to official statistics, as much as 75% of imported grape wines, fortified wines and vermouths, are brought to Poland from EU countries. Italy is the major European supplier of wine to the Polish market, with 21.3 million litres of wine bought from that country in 2013. This figure includes 7.4 million litres of vermouth (Italy being its main supplier) and 4.7 million litres of grape wine in containers exceeding 2 litres, intended for bottling or further processing in Poland. Spain and Portugal have evolved into very important suppliers in recent years (13.1 million and 6.9 million litres, respectively). The position of France has also strengthened (9.1 million litres). Traditionally, Bulgaria plays an important role (16.1 million litres, including 7.3 million litres of bulk wine in containers exceeding 2 litres) but the significance of this source of imports has visibly declined, especially since Poland joined the EU.

Despite the overall turn towards European wines, wine imports from the New World are still very significant, with two dominant sources: the United States (10.3 million litres in 2013) and Chile (and 5.2 million litres).

The market of grape wine, fortified wine and vermouth in Poland

Imports – key sources (million litres, 2013)



Cf. comment on page 42

Source: KPMG in Poland. Based on data from the Central Office of Statistics in Poland (GUS)

” We see that Poles are increasingly willing to choose champagne. Of course, this drink is still associated mostly with the New Year's Eve celebration but, luckily, this is not the only image Poles have in mind. Until recently, our sales of champagne in December were three times as high as in the other months. However, we are glad to notice that there are also other moments of increased consumption, such as the summer season, popular wedding months, occasions such as name-days, as well as the carnival time, Valentine's Day, International Women's Day, Mother's Day and, of course, Christmas and Easter. Polish customers are ever more courageous in exploring various types of champagne and asking about niche brands, specific vintages from particular labels, limited special editions or non-standard bottle sizes. In summer, they opt for refreshing and invigorating champagne whereas the preference for winter leans towards fuller, more rounded and 'warmer' taste. Some products are selected for an aperitif on a special occasion and others are the preferred option for a romantic dinner with seafood. Moreover, Polish consumers are increasingly open to knowledge and experiments. In line with global trends, we can see a rising interest in rosé champagne and an ever greater liking for blanc de noirs, as well as a growing popularity of dry and sophisticated product types. Some few years ago customers, especially those who were just beginning their exploration of the 'bubbly drink', often asked about sweeter champagne, the demi-sec type, but now they are leaning towards classic 'brut' and show interest in extra-brut, or even the so-called 'zéro dosage' products, made without any added sugar.

Marcin Golik
CEO, Dom Szampana



Wines

The market of grape wine, fortified wine and vermouth in Poland

Imports – key sources (thousand litres, 2013)

	Sparkling wine	Grape wine, non-sparkling*	Grape wine, non-sparkling, in containers > 2 litres*	Vermouth	Vermouth in containers > 2 litres	Total
Italy	1 627	7 624	4 732	6 590	769	21 341
Bulgaria	39	8 114	7 268	706	0	16 127
Spain	387	11 853	717	101	0	13 059
Germany	593	8 812	340	686	0	10 432
USA	0	10 205	146	0	0	10 350
France	529	8 133	364	52	0	9 078
Portugal	1	5 951	953	1	0	6 906
Chile	1	4 957	252	0	0	5 211
Moldova	32	4 689	357	0	0	5 078
Hungary	30	2 345	149	0	391	2 914
Australia	51	1 311	274	0	0	1 636
UK	1	1 451	2	0	0	1 454
South Africa	1	1 064	225	0	0	1 290
Argentina	1	1 012	50	0	0	1 063
Georgia	1	969	0	1	0	970
Greece	0	242	406	0	0	648
Macedonia	0	56	380	0	0	436
Czech Republic	2	409	0	11	0	421

*Including fortified wine.

The data show the country of direct import, which does not necessarily overlap with the country of production. Some wines, especially those from outside Europe, get to Poland via intermediaries, which explains the high position of Germany or the UK as important sources of wine for the Polish market, as well as the underrated position of many New World countries. Another important limitation is that the collection of statistics on intra-community transactions in the EU is based on declarations and does not cover the smallest importers (the statistical threshold is PLN 1.1 million worth of imports per annum). It is also important to note that the total volume of wine imports is considerably lower than the data for retail sales volumes provided by Euromonitor. Apart from inaccuracies in imports data, the main reasons might be associated with wine processing in the economy segment as well as the combination of grape wine with fermented alcoholic beverages in the segment of fortified and flavoured wines.

Source: KPMG in Poland. Based on data from the Central Office of Statistics in Poland (GUS)

” Polish consumers want to be seen as reasonable, and they certainly don't want to be perceived as extravagant or overspending. As a result, they behave highly rationally when shopping, expecting very good value for their money. Customers who are highly knowledgeable also display a liking for classic, traditional European regions. Wines from the New World, as well as exotic wines, are not very popular in that group. If they explore new flavours and places of origin, they tend to focus on less popular European regions. Of course, mass customers behave differently and rely on well-known brands their choices, disregarding the product origin. However, awareness in that consumer group is also rising. Poles have finally 'warmed up' to dry wines, discovering that such products can also be mild and highly drinkable. Ever more often, they incorporate sparkling and semi-sparkling wines as part of their daily menu, not necessarily related to celebrations.

J. K. Peter Pulawski

President of Management Board, Grand Cru





4.3 Manufacturers and importers

The wine market in Poland is divided between many medium-sized players. Apart from them, there is a large number of small independent distributors, many of them highly specialised, with their own retail channels.

High fragmentation ensures wide offering but impedes growth

Contrary to other segments of alcoholic beverages, the wine market, especially in grape wines, is highly fragmented. Although the largest distributors have managed to build several strong brands which have become a choice of mass consumers, the wine market as a whole is divided between many medium-sized players. Compared to other categories, discounters play a unique role: they largely operate as independent importers.

Specialised distributors increase in number

Apart from large and medium-sized distributors, there is a considerable number of small wine importers, many of them highly specialised, for example offering wines from a particular region or specific kinds of wine, such as champagne. Industry portals and trade magazines talk about as many as 800-1000 small importers, some of them combining distribution with their own retail shops or restaurants/wine bars. Most of them are microenterprises, and many disappear from the market after a short time. However, there are also examples of robust small and medium-sized businesses which have found and successfully captured a niche.

” *In comparison with other alcoholic beverages, the wine market is small and fragmented. In the segment of table wine, six largest distributors account for only 40% of sales. Since the market is fragmented and divided between many small-scale competitors (if we compare it with breweries or spirits companies), this undermines the potential for returns in the sector, even if the market itself is on the rise. On the other hand, this structure ensures a broader range of products, which may have a positive effect on the category as a whole. However, the sector could do with a small group of leading brands. Without it, distributors have more limited opportunities in providing advertising support for their products. This may represent a barrier to growth in the category. One way to tackle the current difficulties may be for companies to consolidate and expand their areas of operation, for instance by entering other categories of alcoholic beverages.*

Robert Ogór

President of Management Board, Ambra



” *Recent years have seen a genuine boom among independent wine distributors, most of whom rely on their own retail outlets. In order to keep afloat on that market, let alone succeed on it, companies must meet certain criteria. Of course, I might be stating the obvious if I say that a company needs a very good, organically extended range of wines, yet this is not always an obvious path as it requires profound knowledge. These investments need to be considered long-term, and they should be made in accordance with a long-term business plan rather than some romantic impulses driven purely by someone's love for wine. Another advantage is when a company has its own retail channels because wholesaling is a difficult and less stable market, offering lower margins. We have also seen that most distributors who fared best in recent years significantly expanded the range of wines in low-priced segments (that is to say, prices which are low for this channel). Another helpful thing is specialisation, which allows companies to stand out and be transparent in what they actually offer.*

Wojciech Bońkowski

Editor-in-Chief, winiatywa.pl



Wines

4.4 Retail distribution channels

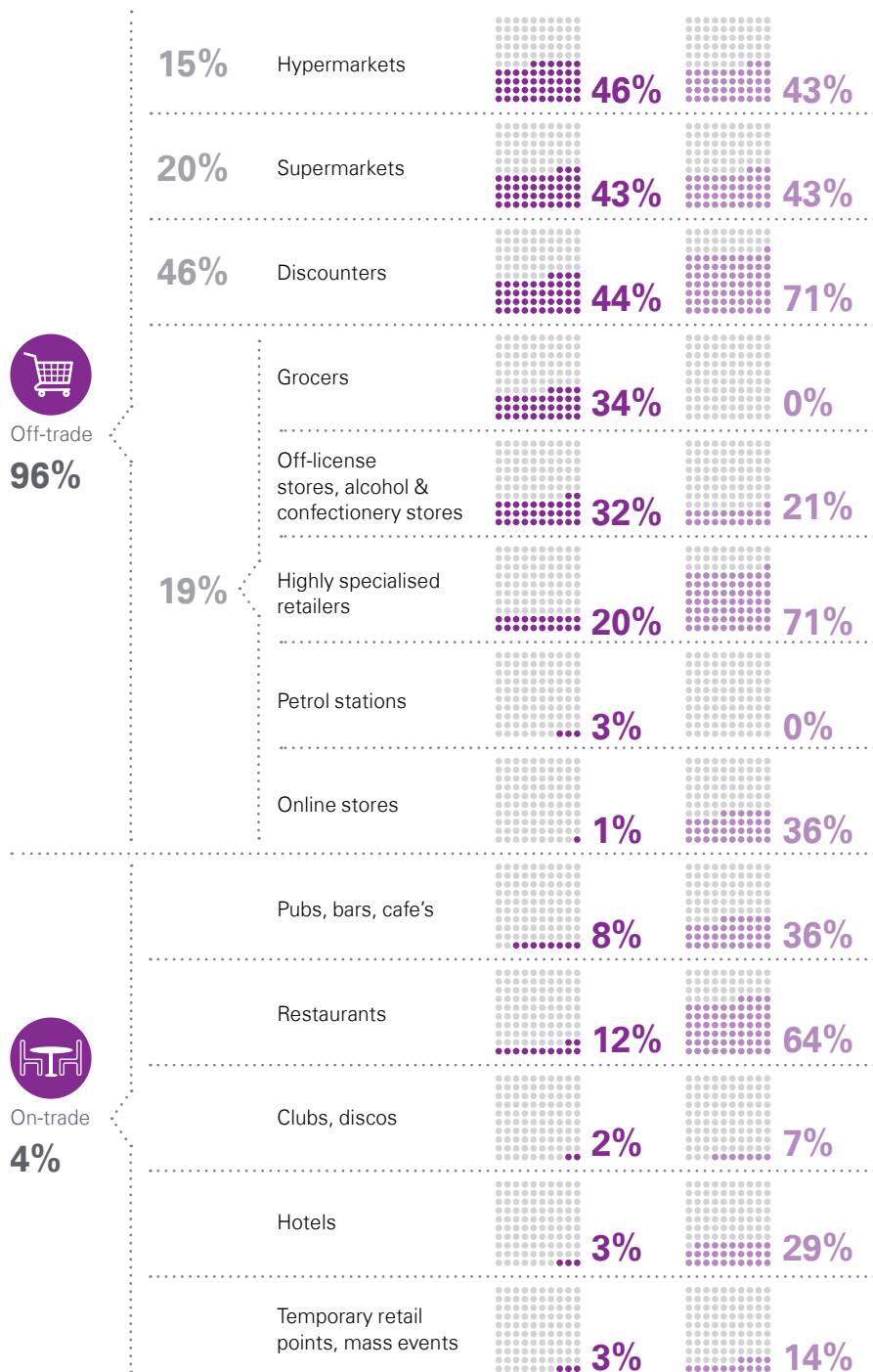
Compared to other categories of alcoholic beverages, trends on the wine market are particularly dependent on retail distribution channels. This refers mainly to discount chains which did not only achieve a dominant position in recent years but also initiated profound market changes. Specialist stores and restaurants are a small yet very important sales channel.

Discounters dominating the market

Discount stores are the leading distribution channel for grape wines, fortified wines and vermouths in Poland and 44% of wine buyers make their purchases there. According to Euromonitor International estimates, discount stores accounted for 46% of the off-trade sales volume of this category in 2013. Such a large market share results from many years of consistent investments in the category of grape wine by two key players: Biedronka and Lidl. Apart from a regular, fairly narrow wine portfolio, both discounters launched temporary offers of carefully selected wines, targeted mainly at lower and medium price segments, and usually accompanied by well-designed information campaigns. Wines from discount stores evolved into strong competitors for domestic wine distributors, building pressure on prices that affected traditional importers. The discounters also showed that excellent value for money could be offered in lower and medium price segments. As a result, discount stores played an enormous role not only in driving new consumers to wine but also in consumer education.

The market of grape wine, fortified wine and vermouth in Poland

Retail distribution channels



X% – share of this channel in sales volume (2013)

- **Current popularity** – percentage of consumers who buy wine in this channel
- **Growth potential** – percentage of companies which believe that this channel will grow in importance on the wine market (the respondent could indicate max. 3 channels)

Source: KPMG in Poland. Based on data from Euromonitor International, a consumer survey and a survey of companies from the alcoholic beverages sector



Super- and hypermarkets fail to leverage the potential of the category

What is characteristic of the Polish wine market is a relatively weak position of hypermarkets, which account for merely 15% of the sales volume. Market representatives and commentators indicate that the weakness of this channel stems from the lack of a well-designed strategy for the category, which translates into excessively wide and non-transparent offering. In addition, lack of investments and low control over the value-for-money factor have also played a role. The position of supermarkets is slightly stronger: they held 20% of the market in 2013. Although almost the same numbers of consumers declare that they purchased wine in each of the above-mentioned channels in the course of the past year, yet actual sales volumes reveal that Poles choose hyper- and supermarkets rarely and buy little, whereas discount stores attract more regular visits and higher sums spent. Manufacturers and distributors expect that discounters will continue to grow in importance yet over 40% still see some potential in hyper- and supermarkets.

Specialist stores and restaurants as very important channels

The remaining distribution channels account for 19% of off-trade sales of wine. The position of the smallest retailers, traditionally offering a narrow range of cheaper wines and popular brands, is very weak. On the other hand, convenience chains play an increasingly significant role, attaching more importance to the selection of products in this category.

The segment of specialist stores deserves special attention. Euromonitor International estimates their share in off-trade sales at over 5%. One in five wine buyers chose this channel in the course of the past year. It is this channel where distributors see a opportunity for robust growth. Moreover, some specialist stores have also launched online shops.

“Any wine importer certainly has a different view as regards the retail distribution channels that have the largest potential for boosting sales. For our company, the key role is played by HoReCa, specialised wine shops, our own chain of retail outlets and the segment of corporate customers (B2B). In turn, major retail chains and online sales play a lesser role. From the perspective of an importer, regardless of business scale, it is important to diversify distribution channels, expand the product range and assortment, and adapt to market needs. The market is influenced by a number of factors, among them seasonality of sales in the course of the year (and each channel has its own high season) and changing consumer preferences. For this reason, it is important to monitor and analyse the market on an ongoing basis to be able to respond to any new developments that may arise. This kind of attitude allows importers to build a position and a competitive advantage.

Dorota Rozbicka

B2B Sales Manager, Wineonline



“The expansion of grape wine as a category has been very dynamic in recent years and it seems likely that the fast pace will persist in the years to come. However, there is more to the market than just greater volumes. In fact, the situation in distribution channels changed radically, and so did customer preferences and the sales structure.

One problem that remains to be tackled is the immense chaos on the wine shelf in many distribution channels. Pressure on prices means that relatively many wines are cheap and poor quality. In turn, in higher price segments consumers often stumble upon overpriced wines which do not offer good value. Above all, and this is particularly true for large stores, we are dealing with a range that is too broad, unclear for consumers, prepared without any rigorous selection or control in terms of quality, pricing and value for money.

As a result, mass consumers still opt for easy-drinking wines from the New World whereas the more demanding European classics have not yet generated the interest they deserve, remaining an option for more educated consumers in higher price bands. Undoubtedly, there has been progress in consumer education and buyers increasingly opt for dry wines, from more classic regions, offering better quality but not necessarily at high prices. Of course, discounters have played an enormous role in consumer education, as they have succeeded in building a very clear and approachable range of wines for all consumers.

Piotr Imach

General Director, Domain Menada



Wines

However, given the unclear legal status, investments in online sales are very limited and an online shop is usually viewed as a vehicle for promotion and marketing communication rather than an important sales channel. Nevertheless, a third of distributors believe that this channel has potential to grow.

The on-trade channel, especially restaurants and wine bars, is an equally small yet important distribution channel. While it accounts for merely 4% of the sales volume, and consumers rarely buy wine there (only 12% of wine buyers), on-trade continues to be a significant channel for the segment of fine wines and its distributors.

” *Traditional wine distributors did not anticipate such a powerful rise of discounters on the wine market and the immense price pressure exerted by those players. This was a mistake and it seems that this trend could have been anticipated, for instance by looking at the German market, which gives us some clue as to how the wine market in Poland may evolve. On the one hand, we can expect that discounters' and consumers' pressure on prices will drive the segment of inexpensive wines. Incidentally, this trend will go beyond the retail off-trade market: it seems that casual dining establishments, with their inexpensive food and wine options, have bright prospects for growth. On the other hand, the segment of fine wines will also expand, and it will target more sophisticated customers, drawing them to specialised shops that offer not only high-class products but also quality advice. Paradoxically, the middle-of-the-road segment stands the weakest chances of growing, which means that only wines from well-established brands will thrive in it.*

Adam Drozdowski

Managing Director, Partner Center



” *The wine market in Poland is young, even immature, and, as such, highly susceptible to rapid changes, in terms of the structure of products sold, distributors, distribution channels, and even consumers' preferences and passing fads.*

The situation of independent specialised retailers has changed dramatically. Until recently, they competed against super- and hypermarkets, but now, all of a sudden, they have to compete with much cheaper products from discount stores. Contrary to what it may seem, we often fight for the same customers. Five years ago people asked me with a surprised glance if wine costing PLN 25 was drinkable at all and I had to convince them that I offered hand-picked imports. Suddenly, the same customers saw that they can buy interesting, tasty wines at a price of up to PLN 20.

I can see a certain trend, even among more affluent consumers: they hunt for the cheapest wines that nevertheless offer decent quality. As a result, the segment of lower-end wines is skyrocketing whereas the medium segment has shrunk. The market of more expensive wines seems to be in a more stable situation.

Independent wine distributors cope with this situation in a variety of ways and one can expect some shuffling to take place: some companies might disappear and some new entrants might pop up. The pressure on prices is enormous so the future challenge for distributors will be to find a way to deal with constantly shrinking margins.

J. K. Peter Pulawski

President of Management Board, Grand Cru





4.5 Production

Although a large part of wine production in Poland boils down to bottling and processing of imported wine, there is an increasing number of initiatives promoting proper production of quality grape wines. They represent a small yet very interesting niche on the Polish wine market. According to the official register kept by the Agricultural Market Agency, there are already nearly 80 Polish wineries which plan to launch their products on the market.

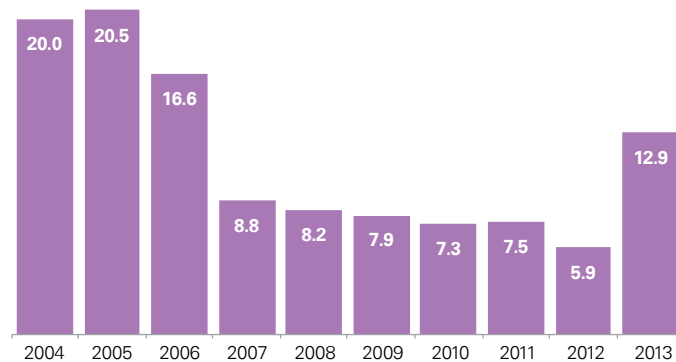
Local 'production' means bottling and processing

According to official statistics, 12.9 million litres of grape wines, fortified wines and vermouths were produced in Poland in 2013. However, the majority of this amount related to wines which were not really produced in Poland but imported and then processed and bottled in Poland. The amount of wine 'produced' in Poland in 2013 was relatively high compared to previous years and it is difficult to find convincing explanations for this growth. However, in the long run, one can notice a decline in the production of such alcoholic beverages: in 2000 the output amounted to 39.6 million litres.

The increased output partly coincides with a rise in imports of wine in large containers, observed in 2012 and 2013. According to official statistics, 18.1 million litres of grape wines, fortified wines and vermouths in containers over 2 litres were imported to Poland in 2013, and only a small proportion of this volume consisted of wines in large containers intended for the retail market (e.g. bag in box).

The market of grape wine, fortified wine and vermouth in Poland

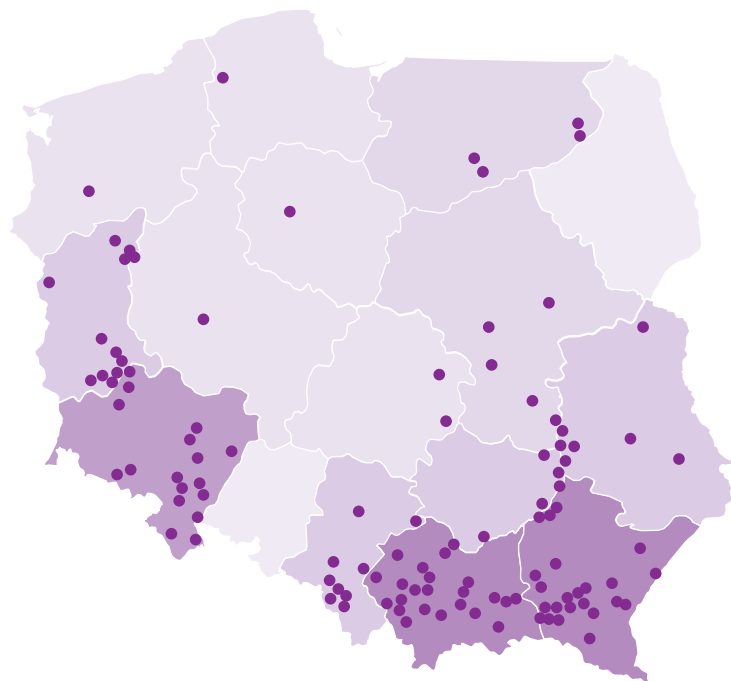
Production (in million litres)



Source: KPMG in Poland based on data from the Central Statistical Office of Poland (GUS)

The grape wine market in Poland

Wineries in Poland (examples)



Source: KPMG in Poland. Based on vinisfera.pl

Wines

Wineries and Polish fine wines on the rise

However, the most interesting phenomena in the Polish wine production occur beyond industrial wine-making plants. Although it would be premature to talk about a wine-making industry in Poland, there is a visible increase of interest in the production of quality grape wine. Wineries were established in Poland in the course of the last two decades but the process has clearly accelerated in the last 10 years.

Trade portals cautiously estimate the number of wineries in Poland at approx. 500. However, most of them operate on a microscopic scale, in an amateur or unofficial manner, for instance, running this activity as part of agritourism business. The total wine growing area in Poland is estimated at 700 ha (winicjatywa.pl, after the Polish Institute of Vine and Wine).

However, there is an increasing number of larger entities that want to launch their products on the market. According to the official register kept by the Agricultural Market Agency, there were 49 manufacturers who produced 1,979 hectolitres of wine in the business year 2013/2014 (versus 21 wineries and 412 hectolitres in 2009/2010). Meanwhile, the Agricultural Market Agency reported as many as 78 wineries officially registered as of August 2014.

The grape wine market in Poland

Wineries registered at the Agricultural Market Agency (business year 2013/2014)



Source: KPMG in Poland based on data from the Agricultural Market Agency

”

Polish wineries are still at a fledgling stage. It is the same situation as in Canada in 1980s. However, the situation is actually better for Poland because Canada had a very miserable history of wine-making and had to overcome it whereas Poland has no history to modify. Building a genuine wine-making industry in Poland will require many years of work, both in marketing and in products. We can no longer rely on hybrid grape varieties because they won't give us great wines. Of course, cultivation of proper grapevine costs money and effort but this is essential if we want quality that would correspond with the current prices. We cannot start building the Polish wine-making industry and wine-drinking culture by making and offering expensive yet imperfect wines.

Robert Mielżyński

Wine importer, owner of wine bars and shops 'Mielżyński Wines Spirits Specialties'





“ For a variety of reasons, Poland is incapable of producing large volumes of wine. It is not only the matter of climate but also the enormous costs involved in building large, professional wineries. Nevertheless, Polish products are already playing a role on the Polish market. Many Polish wineries have been established already and their products are being explored by retailers, restaurants and hotels. In some locations, the availability of Polish wines is actually highlighted as a source of pride. It remains to be seen if this is just a passing fad and a niche interest or not, and whether the category of Polish wines stands any chance of growth .

We should carefully consider the idea of making consumers pay PLN 60 or 100 for a bottle of wine just because it is Polish, even if their interest in wine develops further. Well, it is not certain if consumers will accept it so the expansion of Polish wine-making will strongly depend on possibilities to improve quality. Today, Polish wines are better than those made 10 years ago but the quality is still not commensurate with prices. Moreover, wine-makers will have to start thinking in business terms and professionalise their production. The largest producers will need to make investments to achieve economies of scale. For other manufacturers, who will never go beyond a few thousand bottles, will be better off selling the output in their own agricultural farms. All this will create opportunities for the current market niche to persist and for Polish wines to grow more popular in future.

Tomasz Prange-Barczyński
Editor-in-Chief, Magazyn WINO



Wines

4.6 Situation of companies

The wine market has been expanding for many years and has good prospects for the future. This translates into the status of distributors and manufacturers: three quarters view their financial situation positively. Nevertheless, players from this sector are faced with barriers to further growth, such as excise duty regulations, limited availability of competent staff and strong competition from other companies.

Financial situation viewed favourably

Although there are no official data concerning the financial standing of most grape wine distributors, the survey reveals that the standing is relatively good, with 80% of the interviewed companies assessing their financial situation positively.

Regulatory constraints and threatening competition

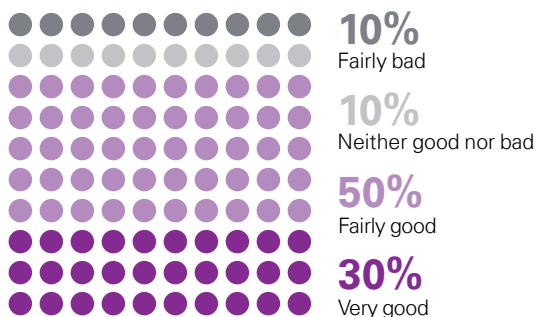
A half of the interviewed wine distributors and manufacturers claim that the applicable excise duty regulations in Poland hinder their growth. As most distributors operate on a small scale, the excise duty requirements affect them particularly strongly.

Availability and quality of personnel is another significant barrier. This barrier is characteristic of the wine sector and stems from its need for highly knowledgeable staff.

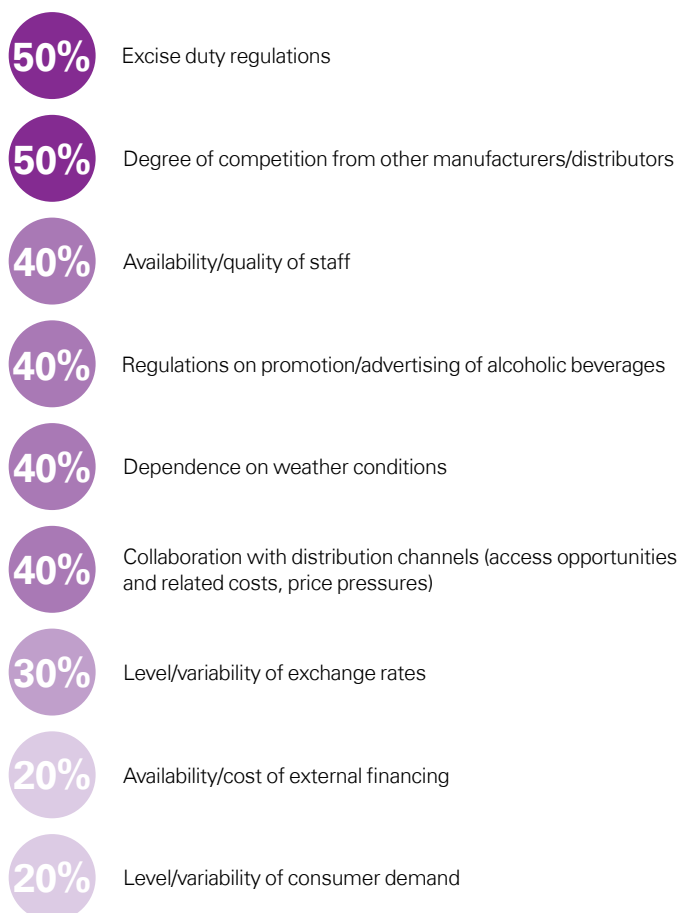
Also, growth of companies on the wine market is seriously constrained by regulations concerning advertising and promotion, hampering their efforts to build brand awareness. The ban on communication also means that it is relatively difficult to educate consumers, which is a particular challenge in the case of wine.

The market of grape wine, fortified wine and vermouth in Poland

Companies' assessment of their own financial standing



Main factors affecting companies' performance and growth



Companies were asked to identify up to 4 key barriers

Source: KPMG in Poland. Based on data from a survey of companies from the alcoholic beverages sector

A close-up photograph of green leaves, likely from a plant like a lily, with numerous small, clear water droplets resting on their surfaces. The leaves are vibrant green and have a smooth texture. The background is softly blurred, showing more of the same foliage. A dark blue banner with a lighter blue diagonal stripe is overlaid on the top right of the image.

Fermented alcoholic beverages

Fruit wine



Interest in fruit wines among Polish consumers has been dwindling for years. Retail sales, although falling, remain fairly high, with 84 million litres of fruit wines sold in 2013 at nearly PLN 0.7 billion. However, only 12% of consumers admit that they drink fruit wines on a fairly regular basis.

Mass consumers rarely choose fruit wines

48% of Poles consumed fruit wines at least once in the course of the past year but only 12% did so at least several times. Importantly, 'fruit wine' may comprise varied products, from cheap industrial wine, often fortified/mixed, to quality regional or 'organic' products. Home-made fruit wine also plays a significant role, which is why declared consumption does not necessarily translate into sales: under 30% of respondents admit having bought fruit wines in the course of the past year.

Cheap fruit wine gradually becoming a thing of the past

Fruit wines and the so-called 'nalewki' (tinctures) (i.e. mixed products based on fruit wine) traditionally played a role of inexpensive and easily available alcoholic beverages as well as a substitute for grape wines (less easily available or more expensive) and beer. Their role grew especially as the excise duty on spirits rose in 1990s. In 2000, a total of 345 million litres of fermented alcoholic beverages (excluding meads) were manufactured in Poland. However, the subsequent decade saw gradual marginalisation of this category, driven by factors such as a decreasing excise duty on spirits and expansion of economy segments of beer and vodka. As a result, the output shrank to 139.2 million litres in 2013. Most companies from the wine sector expect that this category will keep shrinking or, at best, achieve stabilisation.

Interestingly enough, fermented alcoholic beverages are increasingly important in Polish export. According to Eurostat, sales of this category to foreign markets reached 35.2 million litres in 2013, which represented about a quarter of the total output. Those products are exported mainly to Lithuania, followed by the Czech Republic, Germany, Italy and Russia.

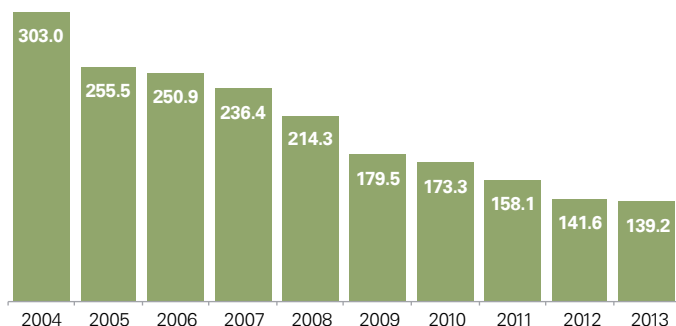
Quality fruit wines – an emerging category

Faced with the shrinking market of 'classic' (i.e. low quality) fruit wines, some traditional manufacturers as well as newly established companies have attempted to premiumise the category. They offered a wide range of quality fruit wines, priced at the level of grape wines, and frequently presented as organic or regional products. This expansion of product range was also inspired by the success of cider in 2013 and 2014 which proved that Poles could be open to non-standard products. Manufacturers' comments reveal that a considerable proportion of quality fruit wine output is also sold in foreign markets. Germany has the highest potential as a destination in this respect: according to Euromonitor International almost 60 million litres of fruit wines are sold in Germany each year.

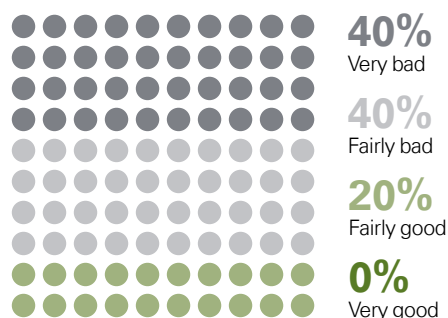


The fruit wine market in Poland

Production of fermented alcoholic beverages (million litres)*



Companies on current market situation



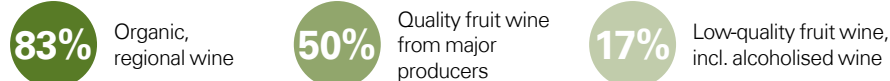
Companies on projected changes in sales volume



Retail sales (2013)

84.0 million litres
PLN 0.68 billion

Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)

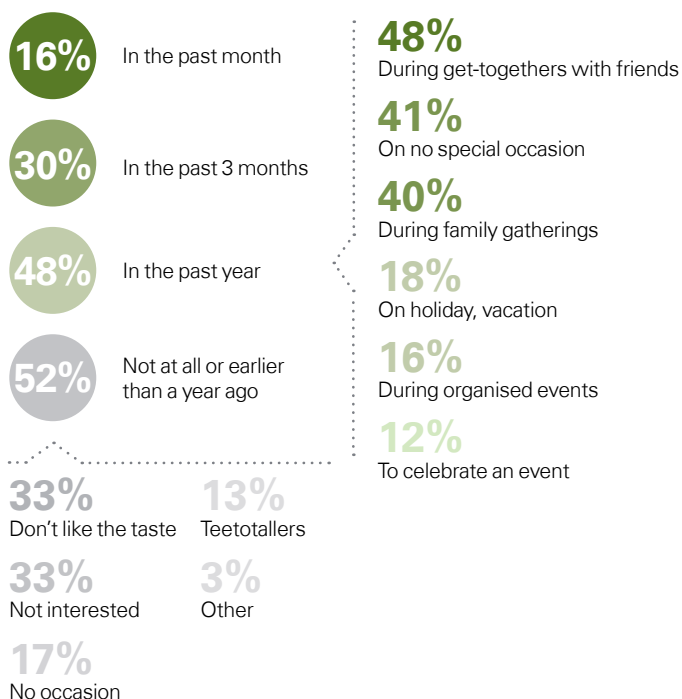


*The data may include small amounts of cider and, to a larger extent, blended products sold as fortified wines

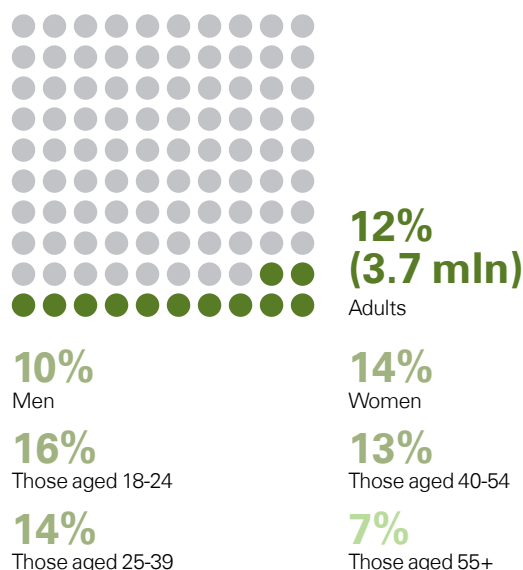
Source: KPMG in Poland. Based on data from the Central Office of Statistics in Poland (GUS), Euromonitor International and a survey of companies from the market of alcoholic beverages

Consumers of fruit wine in Poland

Adult consumers drank fruit wine



Consumers who had fruit wine at least a few times during the year



Source: KPMG in Poland. Based on a consumer survey

Mead



Mead is an alcoholic beverage with a very long tradition in Poland, yet it is largely forgotten by consumers nowadays. Nearly three quarters of adult Poles did not drink mead at all in the course of the past year. Although the output of mead does not exceed 1 million litres annually, an increase can be observed, mainly driven by foreign buyers.

Poles do not appreciate the tradition of mead

Although mead is among products with the strongest anchoring in Polish tradition, it remains a strictly niche product, consumed only occasionally. Merely 9% of adult Poles drank mead in the past 3 months and 27% did so in the course of the past year. Family gatherings and social get-togethers were most common consumption occasions, though some consumers had mead without any special occasion. Other consumers usually claimed that they had no occasion to try mead. Only one quarter of respondents from this group claim they dislike the taste of mead.

Output visibly on the rise, yet volume still small

The volume of mead produced in Poland has approached 1 million litres annually in recent years. Although this is still low, the figure marks a nearly twofold increase versus 2005–2008.

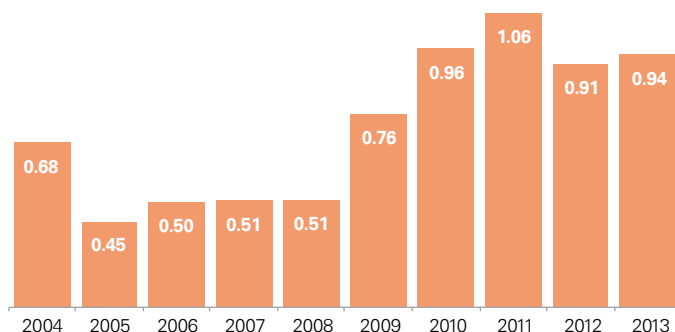
Manufacturers' comments indicate that a considerable proportion of this growth was generated by exports. What undoubtedly helped was the fact that mead was registered by the European Commission as 'Traditional Speciality Guaranteed' in 2008.

What kind of changes can be expected on this market in the coming years? The surveyed companies operating on the market of wines and fermented spirits are basically unanimous: meads will remain a small, niche category, with a stable position on the Polish market but with no significant growth prospects. However, it cannot be excluded that much higher sales can be expected by Polish mead makers on foreign markets as their consumers appreciate uniqueness, tradition and top quality which are inextricably linked with this category.

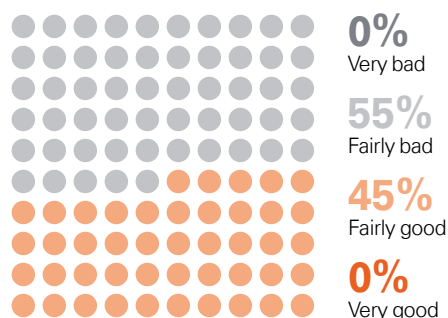


The mead market in Poland

Production of mead (million litres)



Companies on current market situation



Companies on projected changes in sales volume



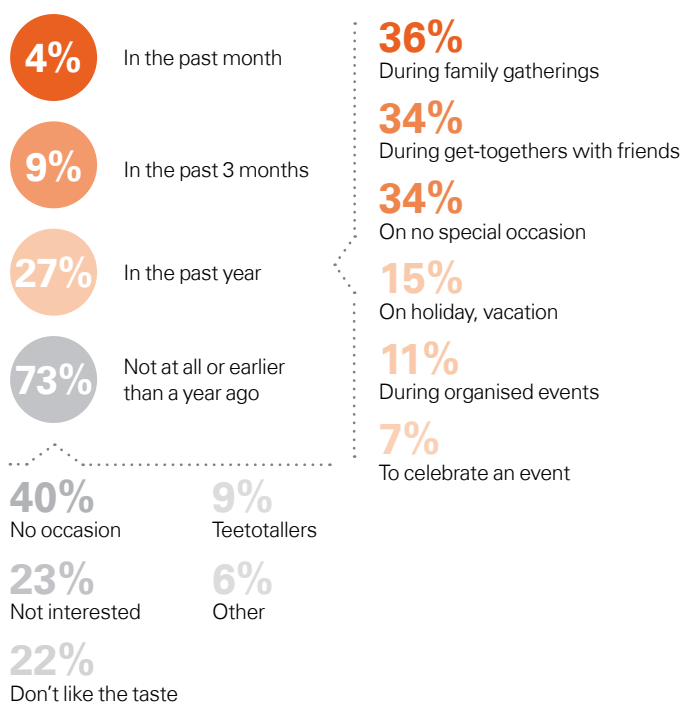
Retail sales (2013)

~0.6 million litres / ~PLN 29 million

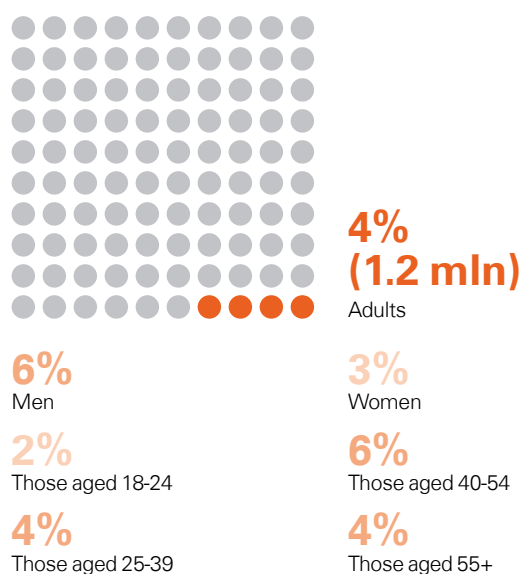
Source: KPMG in Poland. Based on data from the Central Office of Statistics in Poland (GUS) and a survey of companies from the market of alcoholic beverages, KPMG estimates

Consumers of mead in Poland

Adult consumers drank mead



Consumers who had mead at least a few times during the year



Source: KPMG in Poland. Based on a consumer survey

Cider and perry



Although cider/perry enjoy a relatively strong position on many European markets, they have only started building awareness and popularity in Poland. The potential of this category is very far from saturation. Many consumers have never tried cider or perry or even do not know what these names mean.

Good press for cider

Cider and perry, and the former in particular, have turned into a true revelation in the last two years, promoted by manufacturers and retailers, widely commented on in media and supported by public authorities. This was reflected not only in favourable comments but also in a tangible reduction of the burden of excise duty. Consequently, it is hardly surprising that cider stirred up interest among Polish consumers.

Poles' first experiments with cider

Our survey reveals that 40% of adult Poles tried cider or perry in the course of the past year. Moreover, consumers usually tried those beverages relatively recently: 34% drank cider in the past 3 months and 23% did so during the preceding month. Despite the short presence of cider and perry on the Polish market, already over 3 million Poles have repeated their consumption at least a few times. The category has become popular both with women and men, and mostly with young people and consumers living in large and medium-sized cities.

Cider is still a young category in Poland, with a lot of potential for attracting new consumers. 60% of Poles have never drunk cider or perry yet. Most of them claim that they simply had no opportunity to try them and only 20% declare they do not like the taste of cider/perry.

Further growth almost certain, scale unknown

Judging by manufacturers' estimates presented in media, sales of cider and perry in 2013 reached approx. 2 million litres and are likely to hit the mark of 15 million litres in 2014. Managers from the alcohol sector are unanimous in saying that this category has clearly positive growth prospects, at least in the short run.

However, it is difficult to predict when the novelty effect wears off and the wave of consumer experiments recedes, leading to market saturation. Cider and perry are often compared to flavoured beer and beer mixes, and sales of those latter two categories approached 270 million litres in 2013. However, this kind of skyrocketing for cider/perry is hardly possible since beer (whether pure, flavoured or mixed) is much more accessible and familiar. Another equally important factor is that advertising for cider is still subject to much greater restrictions in comparison with beer. Moreover, such sizeable quantities of cider are consumed only in one European country, namely the United Kingdom. It seems that France, with over 80 million litres of cider sold annually, is a much better frame of reference for the Polish market. Therefore, considering the market size, one can safely assume the maximum volume achievable for cider and perry in Poland in the next five years is close to 30-40 million litres a year.



The cider and perry market in Poland

Retail sales (2013)

2.0 million litres / PLN 19 million

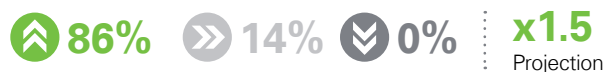
Companies on projected changes in sales volume

2014



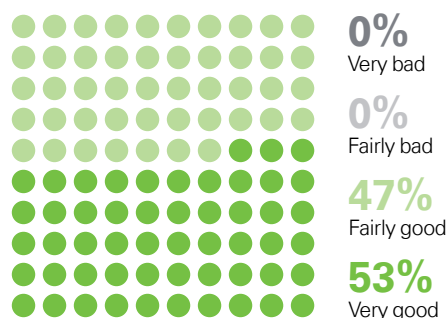
x7
Projection

2015



x1.5
Projection

Companies on current market situation



Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)

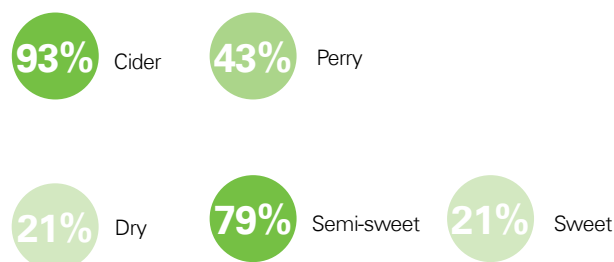
Manufacturer brands



Retailer brands



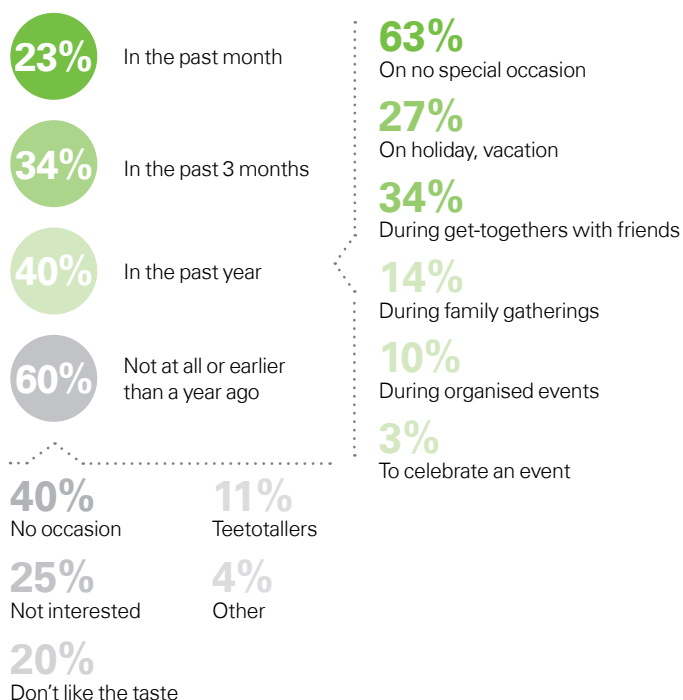
Product categories



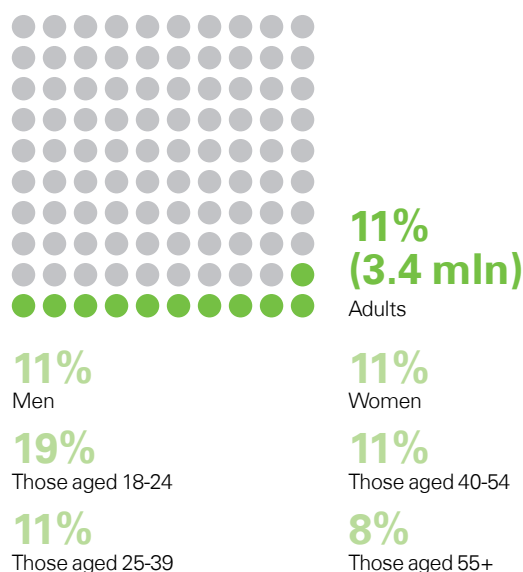
Source: KPMG in Poland. Based on data from the Central Office of Statistics in Poland (GUS), comments from industry players, a survey of companies from the market of alcoholic beverages, KPMG estimates and projections

Consumers of cider and perry in Poland

Adult consumers drank cider and perry



Consumers who had cider and perry at least a few times during the year



Source: KPMG in Poland. Based on a consumer survey



+ RTD



RTD

> p. 96

5

Spirits

5.1 Size and condition of the market

In 2013, Polish consumers purchased 348.3 million litres of spirits and spent PLN 17.4 billion on them. Poland is one of the largest spirits market in Europe in terms of sales volume. However, its value is still relatively low compared to major Western European markets. This situation is gradually changing as consumers reach for types of spirits other than vodka, a leader of the past era.

Only 1 in 10 adult Poles does not drink spirits at all

Nearly all adult Poles drink some kinds of spirits. During the past year, as many as 88% have drunk any spirits and 62% did so at least several times a year. Spirits are consumed more frequently by men (66%) and by very young people under 25 y.o. (63%) on the one hand, as well as mature consumers aged 55 (64%) on the other.

Drinking less but spending more

Retail sales of spirits have been decreasing slightly yet systematically since 2011. At the same time, the value of consumer spending has been growing. In 2013, Polish consumers purchased 348.3 million litres of spirits and spent PLN 17.4 billion on them. Gradual shifting from standard vodkas towards low-proof flavoured spirits and imported spirits, especially whisk(e)y, is the main growth driver.

A significant market in Europe

Poland clearly stands out from other European countries as a spirits market. As a result of high per capita sales, it is a very large market in terms of quantity, only falling behind the largest Western European countries. However, the sales

structure in Poland is essentially different than in those countries, with a much more important role of vodka. Consequently, the value of spirits sales per an adult person is relatively low.

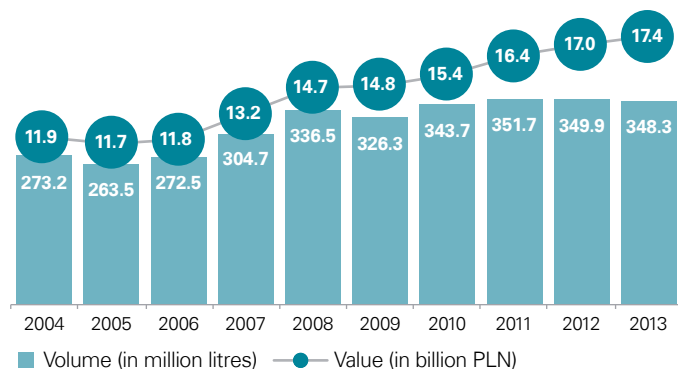
The 2014 increase of excise duty shook the market

Starting from the end of 2013, the spirits sector experienced very strong turbulences associated with the 15% increase in excise duty, coming into effect at the start of 2014. The change in excise duty affected mainly the market of vodka and low-proof flavoured vodkas, intensifying competition in the sector and radically undermining its profitability. The increase in the excise duty rate is clearly reflected in survey responses given by managers from the spirits sector. Their assessment of the situation in many key categories is negative, with the percentage of negative opinions for vodka running as high as 66%. Also, the forecasts for spirits in general are negative (a 2.2% decrease in 2014 and a 1.5% decrease anticipated for 2015). The 4% drop in the vodka market, predicted by the interviewed companies, will be only partly offset by good prospects for some smaller categories.

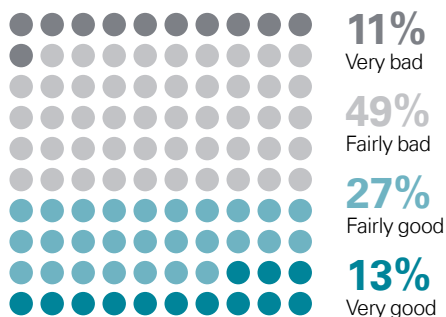
Spirits

The spirits market in Poland

Retail sales



Companies on current market situation



Companies on projected changes in sales volume



The survey asked about specific product categories in the category of spirits. The scores were weighted by their respective shares by volume.

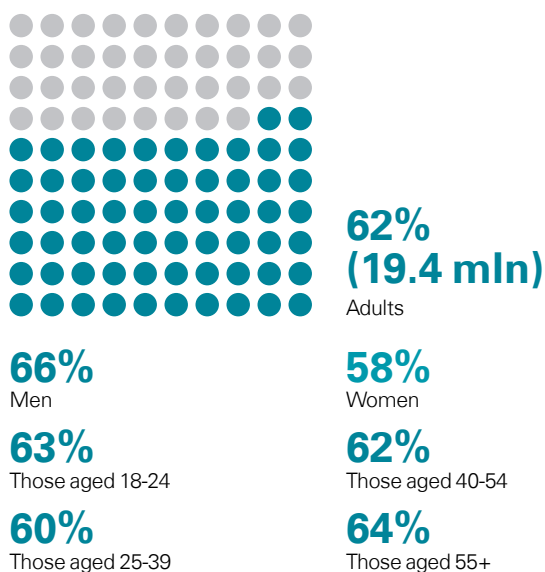
Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

Spirits consumers

Adult consumers drank spirits



Consumers who had spirits at least a few times during the year



The survey asked about specific product categories in the category of spirits

Source: KPMG in Poland. Based on a consumer survey

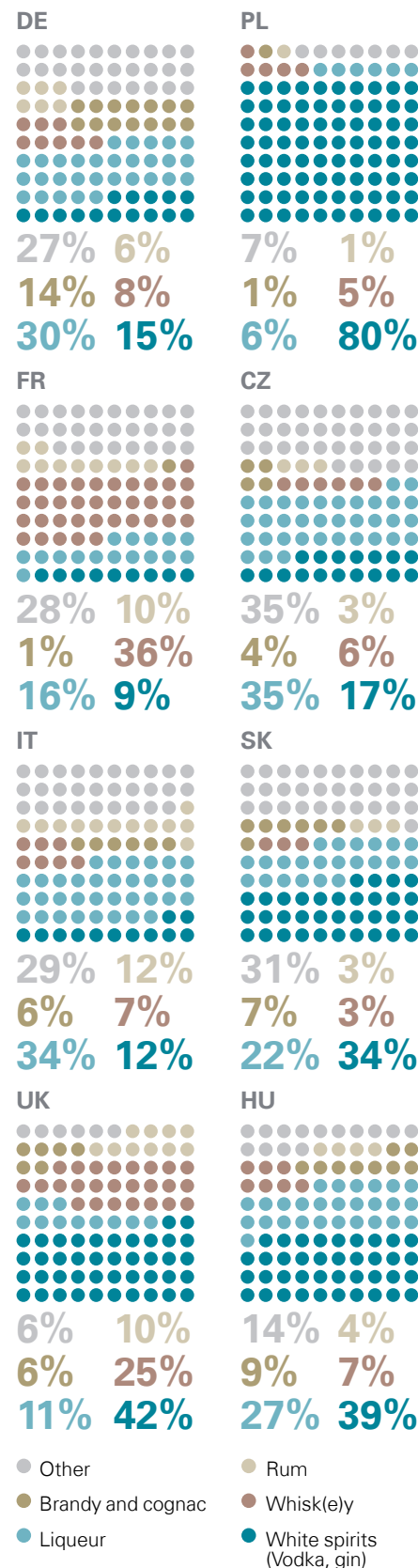


The market of spirits in Poland and selected European countries

Value and volume of retail sales (2013)

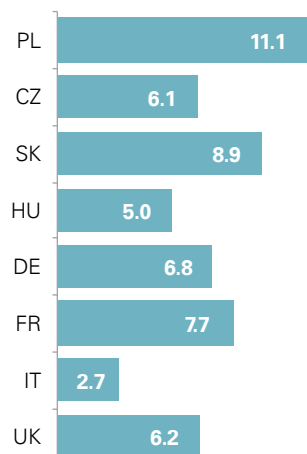


Sales volume

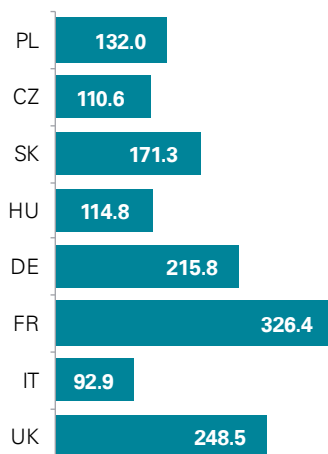


Sales per person at the legal age for alcohol purchase

Volume (litres)



Value (EUR)



Source: KPMG in Poland based on data from Euromonitor International

Spirits

5.2 Consumer trends and product trends

Although price remains the key purchase criterion, the Polish spirits market has witnessed a very strong trend of premiumisation, supported by consumers' immense openness to innovation and the increasing popularity of mixology. As a result, consumers are ever more daring in exploring new categories and new flavours.

Towards premium products and category

Consumers who drink spirits on a fairly regular basis frequently claim that they look for products or categories of extraordinary quality. All the representatives of the spirits sector that participated in our survey claimed that this is one of four trends that would shape the spirits market in Poland most strongly in the coming years.

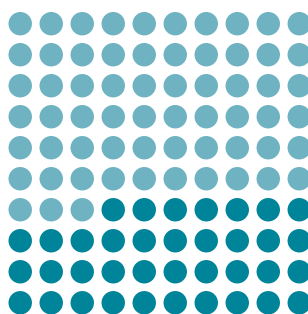
Premiumisation will be reflected not only in consumers choosing products of higher quality within the category (e.g. premium vodka instead of standard vodka) but also in exploring more expensive categories, such as whisk(e)y. As far as manufacturers' activities are concerned, this trend is also manifested by adding features characteristic of the premium segment to standard products.

Premiumisation can also be linked with the fact that consumers aim to cut down on their alcohol intake, which means they can afford to purchase spirits of higher quality.

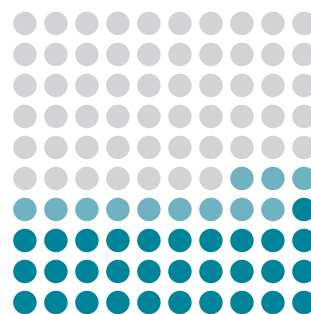
The spirits market in Poland

Key consumer trends

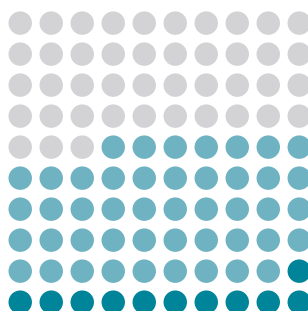
Premiumisation



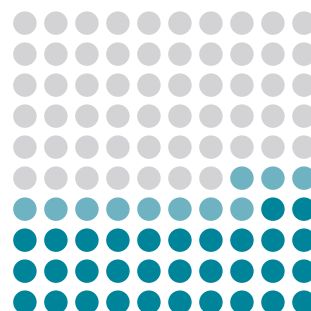
Innovation



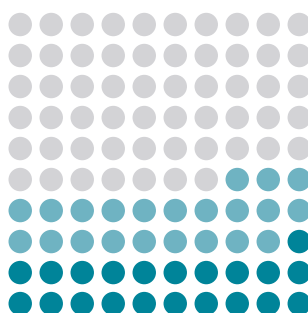
Mixology



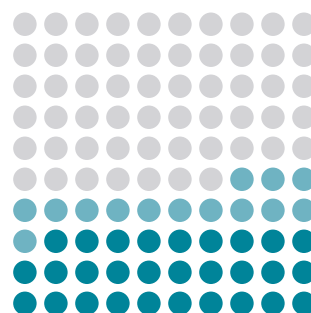
Local products



Health and well-being



Value for money



● **Future impact** – percentage of companies which believe that this trend will play a key role for the category in the next two years.

● **Current share** – percentage of consumers of spirits (regular or fairly regular) who strongly identify with this attitude

Consumers and companies were asked to identify max. 4 key attitudes/trends.

Source: KPMG in Poland. Based on a consumer survey and a survey of companies from the market of alcoholic beverages



Innovation and mixology

It is not a coincidence that the Polish spirits market has recently witnessed a wave of innovations, reflected in the exploration of flavoured alcoholic beverages, arrival of new categories, not to mention inventive packaging designs. Polish consumers are very open to such innovations whereas manufacturers and distributors are extremely effective in launching them. Although many interviewed representatives of companies said that the innovative trend was already losing its dynamics, it is nevertheless going to shape the market for the next few years.

On the other hand, mixology is an emerging trend. At the moment, only one in ten spirits consumers admitted that they were happy to broaden their knowledge and practical skills related to alcoholic drinks. However, managers from spirits companies claim that the mass consumer market is already experimenting with mixed alcoholic drinks (mostly simple ones) and will continue to take their experiments further.

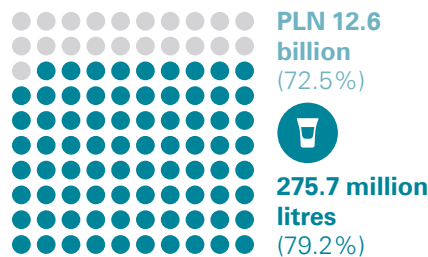
All that at a low price

Although premiumisation is the principal trend, another important phenomenon should not be overlooked, i.e. the quest for the best value for money. Consumers have become used to manufacturers and retailers striving to offer highly attractive promotional pricing and open admit that they actively look for special deals. For this reason, consumers are very reluctant to accept any attempts at increasing the margins or the price rises caused by the elevated excise duty. The spirits companies have no illusions: the quest for good value for money will remain an important feature of Polish consumers and the Polish market for many years to come, and it will shape nearly all market segments, including the premium segment.

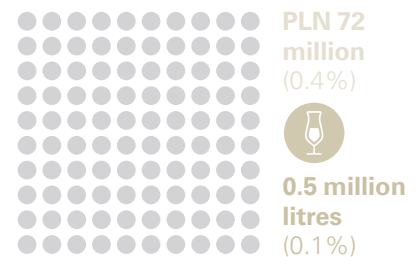
The spirits market in Poland

Retail sales (2013)

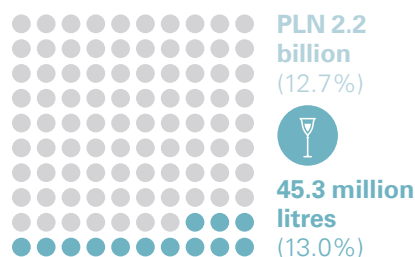
Vodka



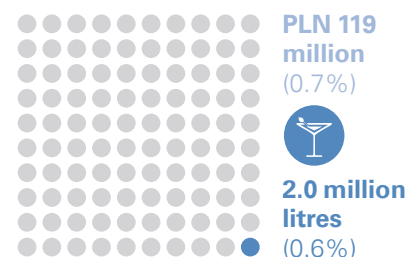
Rum



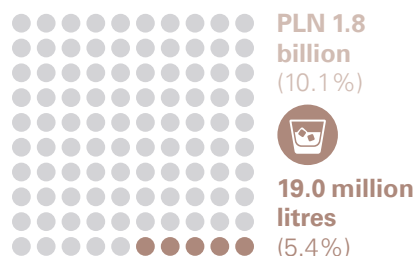
Liqueurs and other flavoured spirits*



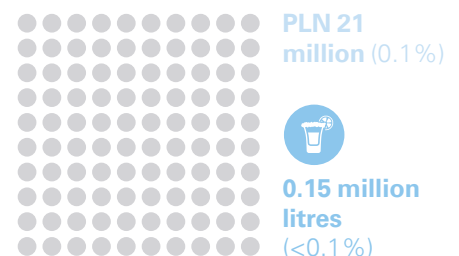
Gin



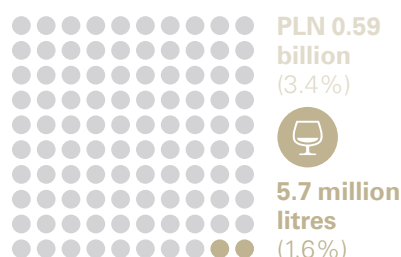
Whisk(e)y



Tequila



Brandy and cognac



* Incl. herbal vodkas (bitters), vodka-based flavoured beverages with $<37.5\%$ ABV and, to a small extent, rum-based or rum-flavoured spirits

Source: KPMG in Poland based on data from Euromonitor International

Spirits

Market impact: ever less vodka

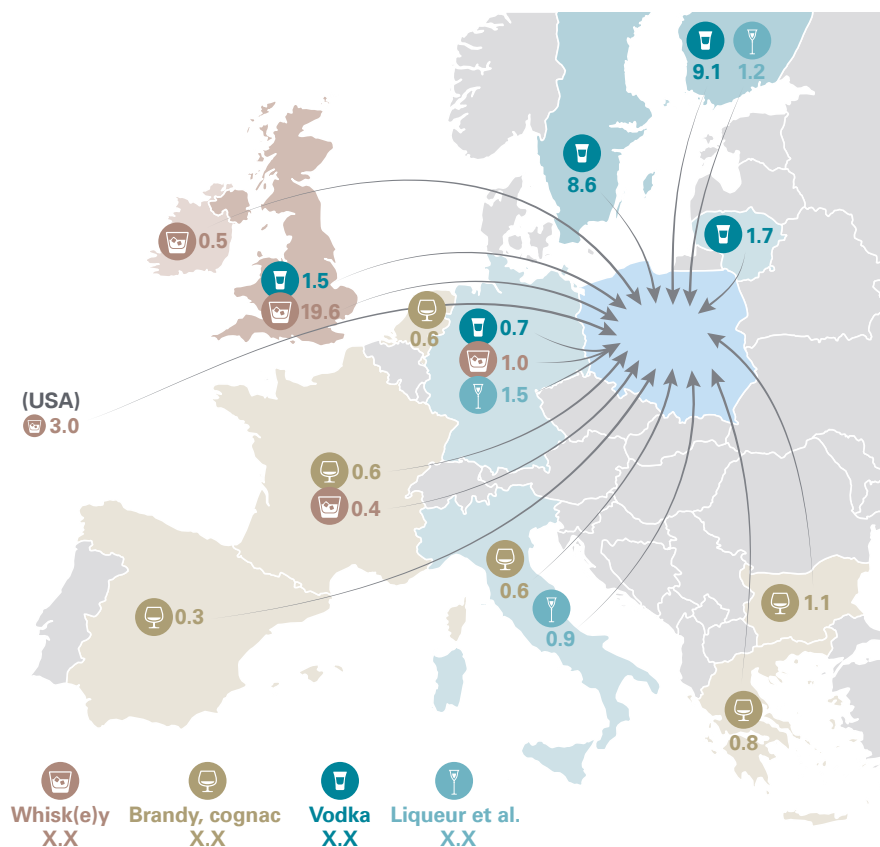
The trends discussed above have been present on the Polish spirits market for some time now and have already translated into profound changes in the sales structure and manufacturers' offering.

The shrinking share of the dominant category, i.e. vodka (in the strict sense, i.e. excluding bitters and low-proof flavoured vodka-based drinks), is the most spectacular sign of premiumisation and innovation. In 2008, the share of vodka in the volume of spirits sales amounted to almost 85%, whereas it dropped to 79% in 2013. Within the vodka category itself, there has been a shift from the consumption of pure vodka towards flavoured vodkas, with an increasing interest in imported products.

Consumers tend to switch from vodka to more innovative or aspirational products (i.e. more 'premium' ones) or to products outside the category of spirits. This trend is reflected in the growth in low-proof flavoured 'vodkas' which, although formally not vodkas, take consumption occasions away from vodka. Since 2008, the share of low-proof flavoured vodkas in the spirits category increased (in quantitative terms) from slightly less than 2% to almost 7% in 2013. In parallel, consumers are discovering imported quality spirits, above all whisk(e)y. The share of whisk(e)y in the sales volume of spirits rose from slightly over 2% in 2008 to over 5% in 2013.

The spirits market in Poland

Key import sources and products (million litres, 2013)



The data show the country of direct imports, which is not necessarily the same as the country of production.
Source: KPMG in Poland based on data from the Central Statistical Office of Poland (GUS)



“Older generations are used to vodka because they had no other choice in the past. A very wide offer is a natural thing for the generation of young adults, though. This generation is open to experiments and change. They do not get used to brands and categories that strongly. They drink what they like. They often deliberately turn away from vodka as a drink of older generations. That's why they explore the products of international corporations which offer new kinds of alcoholic beverages, already tried and tested in the West. We see consumers drink less but choose better products, more often opting for premium brands. Vodka as a category keeps shrinking, partly driven out by whisk(e)y, which becomes ever more affordable for Polish consumers and has already taken some consumption occasions away from vodka. Also, the segment of low-proof flavoured 'vodkas' keeps growing. Compared to vodka in general, the segment of imported premium vodkas is doing slightly better as it has a stable and more loyal consumer base.

Manager responsible for marketing in a spirits company

“Premiumisation is one of the key trends on the Polish market. It expands even faster here than in other countries. It will also be an important factor for further growth of the market because every year more and more consumers get to know global brands and appreciate their value, and the rising affluence of Polish consumers helps to reinforce this trend. Moreover, the consumption patterns are changing: from typically functional consumption to a quest for more sophisticated experience. However, this trend is slowed down by the existing regulations that constrain the advertising of spirits, and this impairs growth of premium brands in particular. After all, their value does not stem from the price but from what those brands stand for. With such limited communication options, it is very difficult to be effective in conveying why a brand is better than others or why a product has a higher quality and represents greater consumer value. As a result, consumers choose products relying on price only. When consumers see two brands, they find it difficult to compare them in terms of other attributes. The only thing they see is that one is cheaper but there is no information about the quality or taste and flavour. I think that the restrictive marketing regulations actually pose a threat to healthy growth of the Polish market of alcoholic beverages.

Maciej Buda

Finance Manager Poland and Baltics, Bacardi Martini



Spirits



5.3 Vodka

Despite the gradual decline in interest among Polish consumers, vodkas still play a key role on the market of spirits and alcohol beverages in general. During the past year, 79% of adult consumers drank vodka, and the annual retail sales of this category reached 275.7 million litres and PLN 12.6 billion (2013). However, the prospects for 2014 and 2015 are fairly gloomy due to the increase in the excise duty. The sector expects an average decrease in sales respectively by 4% and 3% y/y.

Eight in ten Poles are vodka consumers

79% of adult Poles drank vodka at least once in the course of the past year. Compared to other categories, the consumption occasions were very commonly associated with get-togethers with friends (69%) and family gatherings (62%), including in particular, weddings and other large-scale celebrations (as stressed by the respondents). Those who do not drink vodka at all usually say that they do not like the taste of vodka (37%) or that they are simply not interested in vodka (22%). The majority of other consumers (31%) are teetotalers.

Poles are relatively reluctant to admit that they consume vodka on a regular or relatively regular basis (i.e. at least several times a year), with regular consumption being more common among men (51%) than among women (34%). The share of vodka consumers is highest among people aged 18–24 and declines with age.

The increased excise duty hits vodka

The retail sales of vodka in 2013 amounted to 275.7 million litres in quantity and to PLN 12.6 billion in value. Although vodka remains one of the most frequently consumed alcoholic beverages, the size of this category has been shrinking gradually.

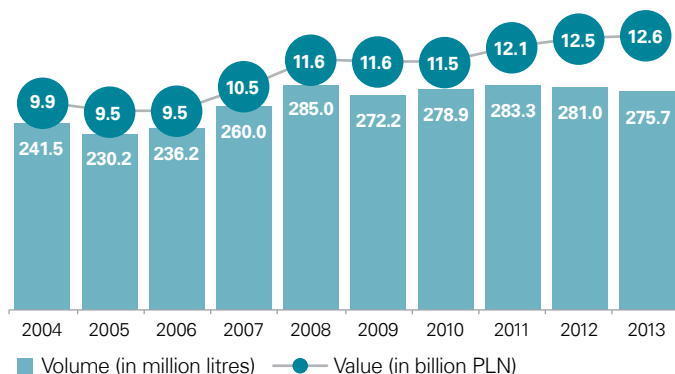
As many as 66% of the interviewed companies described the situation on the vodka market as bad or very bad. Apart from the shrinking market, very low profitability of sales across almost all the segments (except for top premium) is also an important reason. This situation stems from the fact that, faced with declining demand and price pressures from consumers and distribution channels, many market players adopted a pricing policy focusing almost exclusively on generating sales volume.

However, the most important problem in the category lies the increased excise duty on spirits that came into effect in 2014. This step inflicted a particularly heavy blow on the vodka market. At the end of 2013, manufacturers and distributors built up large stocks, which allowed them to defer the increase in prices even until mid 2014. As a side effect, competition became even fiercer, as manufacturers and distributors tried to keep or win the greatest market share at the expense of their margins. Despite those efforts, a market slump was inevitable. Manufacturers expect that the vodka market will shrink by 3.7% in 2014 on average and will probably continue to shrink throughout 2015 (by 2.9% y/y).

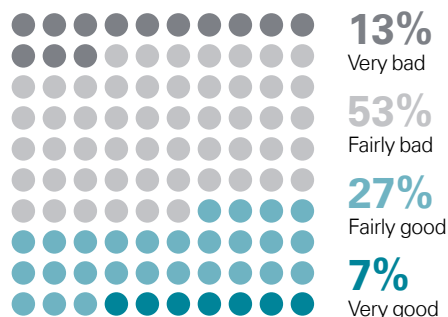


The vodka market in Poland

Retail sales



Companies on current market situation



Companies on projected changes in sales volume

2014



2015

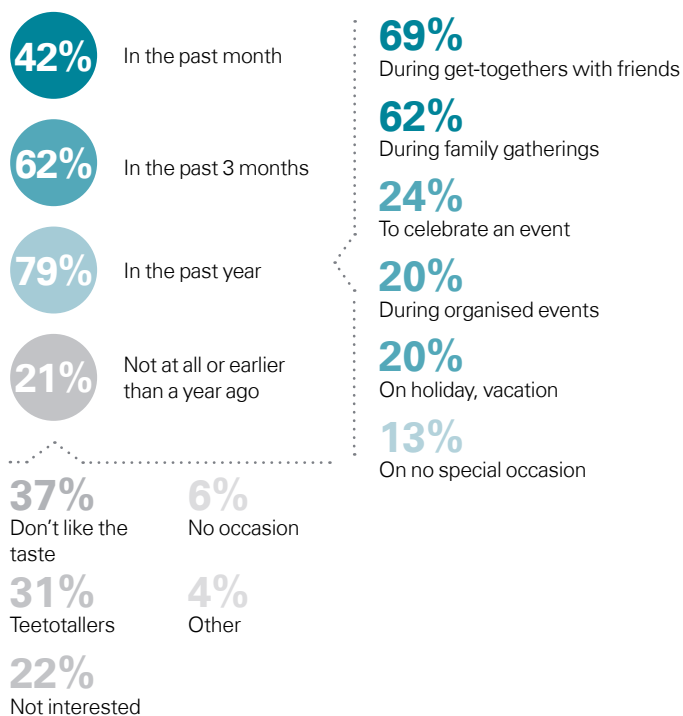


The data do not include low-proof flavoured vodkas (under 37.5%) and herbal vodkas (bitters).

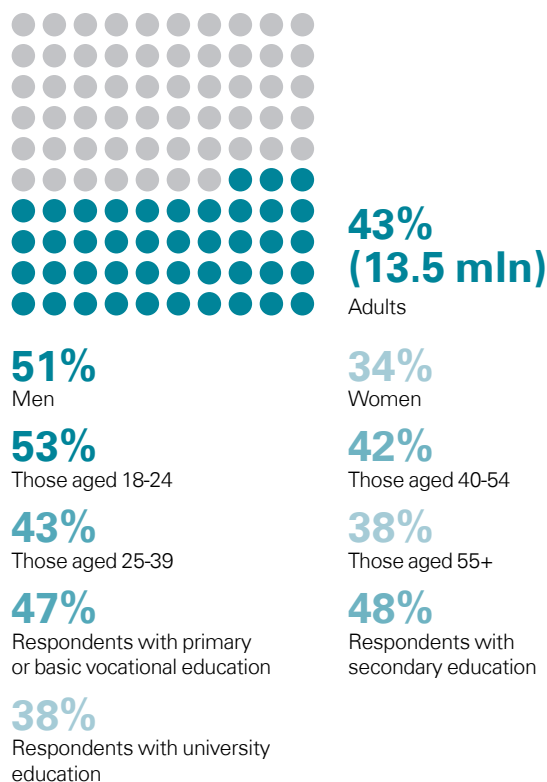
Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

Vodka consumers

Adult consumers drank vodka



Consumers who had vodka at least a few times during the year



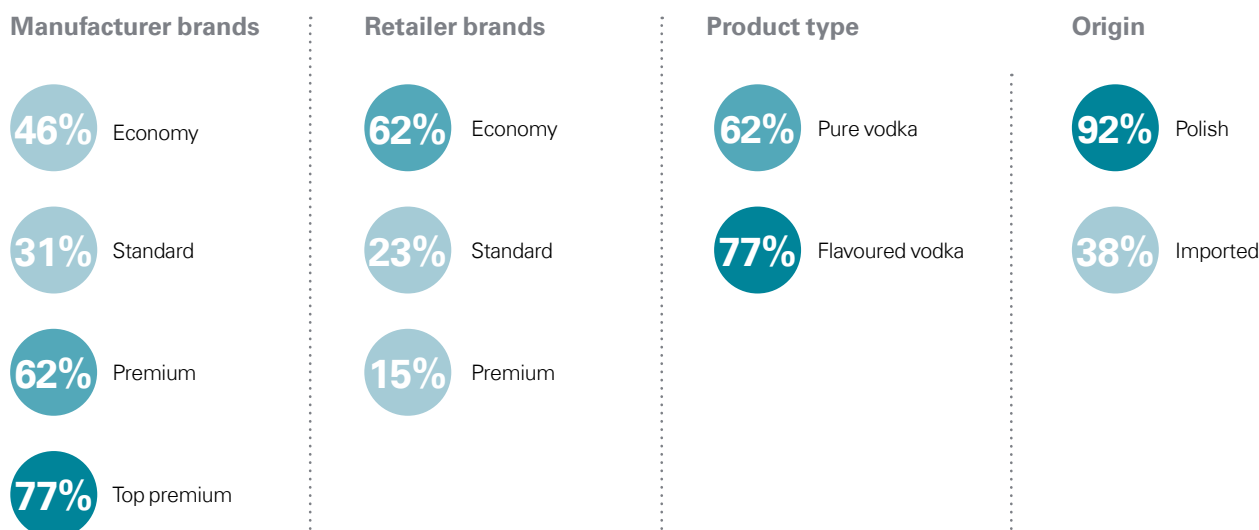
The data do not include low-proof flavoured vodkas (under 37.5%) and herbal vodkas (bitters).

Source: KPMG in Poland. Based on a consumer survey

Spirits

The vodka market in Poland

Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)



The data do not include low-proof flavoured vodkas (under 37.5%) and herbal vodkas (bitters).

Source: KPMG in Poland. Based on a survey of companies from the market of alcoholic beverages

“The increase in excise duty in January 2014 caused quite a stir on the vodka market. Towards the end of 2013 manufacturers and distributors built up huge stocks, and already in 2014 they launched programmes to refinance retail prices of vodka in order to keep the pre-January prices for as long as possible. The impact on sales of the category will be considerable over the year, except perhaps the top premium segment, where the excise duty rise was relatively least significant. The budget segment is likely to lose more than anyone else. I perfectly recall the opposite situation from 2002, when a decrease in excise duty drove retail prices down by 20%. We clearly saw how consumers were moving upwards: from the grey market and fruit wines to economy vodkas, from economy vodkas to standard vodkas etc. Now, we can expect the opposite, including the reappearance of the old problems with the grey market.

If there are no further regulatory changes, the vodka market should stabilise in the long run, following the period of declines caused by higher excise duty, and the sales volume will be lower than before. One can expect that the top premium segment will expand, as it has very strong, aspirational brands, linked to special occasions. The future of the premium segment is unclear, though. It could become a driving force for the category but there is relatively little investment there. Moreover, the difference between standard and premium vodka is getting blurred, both in terms of packaging design and pricing. As far as the standard segment is concerned, manufacturers will probably abandon strategies focused on expanding market share, and will focus on profitability instead, which will translate into smaller volumes but higher sales value. The flavoured vodka segment will certainly play an important role on the market, including low-proof flavoured vodkas, as they have already gained a strong position among consumers. Price rises are rather unlikely here but we can expect to see further reduction in alcohol by volume, which will allow manufacturers to gain a greater margin through a reduction of the excise duty share in price.

Robert Kabot
Marketing Director, Sobieski Group





”

The main problem faced by the Polish market is the decline in sales, caused by price rises stemming from the changed excise duty rates. In this situation, the strategy of building brand equity becomes more important than ever.

When communication with the market is limited by law, premiumisation is the best if not the only way to increase brand equity. Premiumisation is a trend which increasingly determines where the alcohol market is heading and this trend will prevail on the market in the coming years. Coupled with this is a sense of responsibility for the standing of the entire category. Our job is not only to boost sales but also to promote vodka drinking culture in Poland, and to educate consumers about responsible drinking.

Educated consumers are getting ever more demanding and open to novelty. They seek original products.

The changing consumption structure and new consumer habits force us to be more creative: expanding our range by adding completely new product categories, and innovating to fully meet our customers' expectations.

Mariusz Borowiak
General Director, Stock Polska



Spirits



5.4 Liqueurs and other flavoured spirits

69% of adult Poles drink broadly defined liqueurs, though only 1 in 5 consumers drinks them several times a year or more frequently. Since 2007, this category has experienced very intensive growth, mainly thanks to the rising popularity of low-proof flavoured vodkas. In 2013, the sales of the latter category exceeded 45 million litres, with consumer spending of about PLN 2.2 billion.

Poles drink liqueurs but not necessarily on a regular basis

69% of adult Poles drank liqueur in the course of the past year but less than 20% declare that they drink liqueurs on a regular, or relatively regular, basis, i.e. several times a year. A meeting with friends or relatives is the most common consumption occasion. A quarter of consumers drink liqueurs also without a particular occasion.

Women predominate in the 6-million group of fairly regular liqueur consumers: nearly a quarter of Polish women and only 16% of men belong to this group. A greater interest in this category can be observed among people over 40 years old. However, it should be remembered that the category of liqueurs is very broad and various consumer groups (especially age cohorts) tend to choose different products.

Low-proof flavoured 'vodkas' conquer the market

In terms of size, broadly understood liqueurs are the second largest spirits category, following vodka. In 2013, the sales volume of liqueurs reached 45.3 million litres, with a value of PLN 2.2 billion. Apart from traditional liqueurs (sales of 3.1 million litres in 2013), this category also includes bitters (18.3 million litres) as well as the increasingly popular low-proof flavoured 'vodkas'. The sales volume of the latter came close to 24 million litres and keeps growing, unlike the volume of bitters which has been shrinking in recent years.

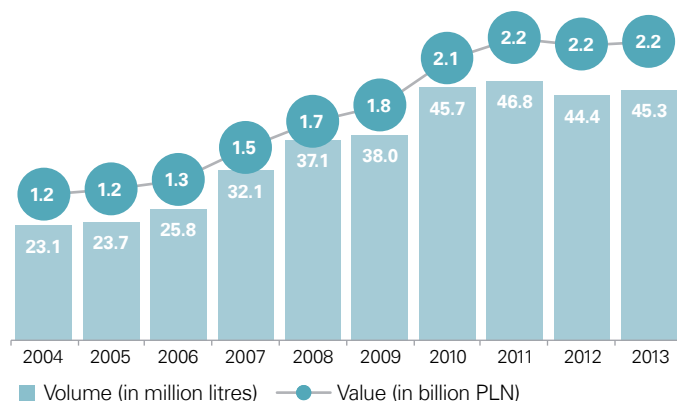
Future prospects: growth against increased excise duty

The interviewed companies think that fruit liqueurs and low-proof flavoured 'vodkas' have the best prospects within the category, though some respondents claim also that their growth will not be as dynamic as it has been in recent years. On average, companies expect the sales volume in the whole category to rise by 2% in 2014 and by almost 3% in 2015. Growth will be facilitated by product innovations. The range of products becomes ever broader: apart from new flavours introduced by existing brands in 2014, we also saw an arrival of completely new low-proof flavoured vodkas (approx. 20%).

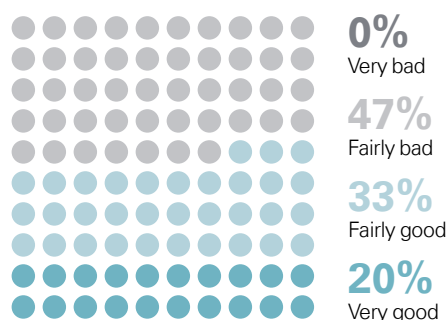


The market of liqueurs and flavoured spirits in Poland

Retail sales



Companies on current market situation



Companies on projected changes in sales volume

2014



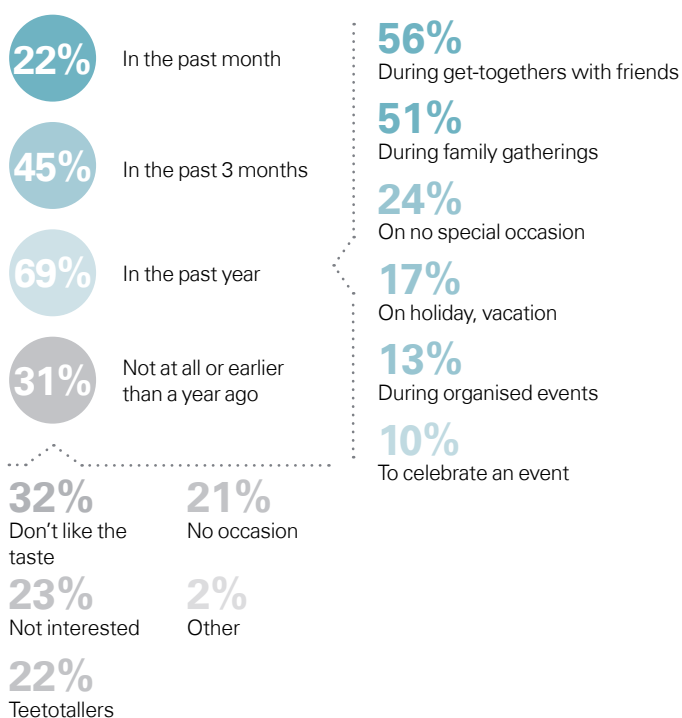
2015



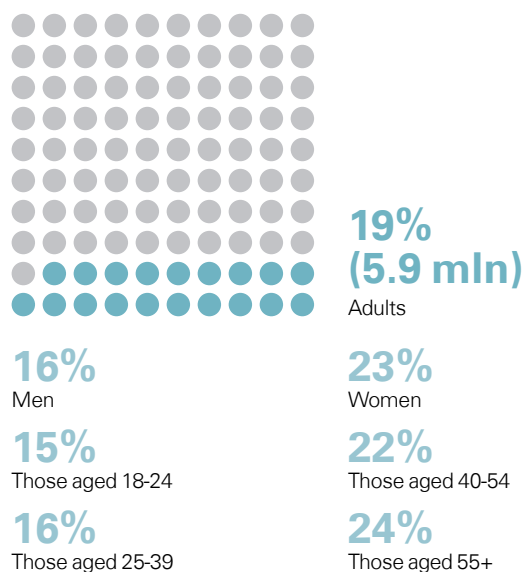
The data include liqueurs, low-proof flavoured vodkas (under 37.5%), herbal vodkas (bitters) and (to a small extent) other flavoured spirits, including rum-flavoured spirits. Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

Consumers of liqueurs and flavoured spirits

Adult consumers drank liqueurs and flavoured spirits



Consumers who had liqueurs and flavoured spirits at least a few times during the year



The data include liqueurs, low-proof flavoured vodkas (under 37.5%), herbal vodkas (bitters) and (to a small extent) other flavoured spirits, including rum-flavoured spirits. Source: KPMG in Poland. Based on a consumer survey

Spirits

The market of liqueurs and flavoured spirits in Poland

Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)



The data include liqueurs, low-proof flavoured vodkas (under 37.5%), herbal vodkas (bitters) and (to a small extent) other flavoured spirits, including rum-flavoured spirits
Source: KPMG in Poland. Based on a survey of companies from the market of alcoholic beverages

“Traditional fruit and herbal tinctures are the top premium segment among flavoured alcoholic beverages. It is a market that emerges thanks to new consumer trends. I have been observing an interesting phenomenon for a few years: customers are looking for new, quality products made by small local companies, using traditional technologies. Year after year, Polish consumers become increasingly aware of their expectations and choose products based on natural ingredients, such as tinctures.

Rafał Dziliński
Owner, Nalewkarnia LONGINUS





5.5 Whisk(e)y

Polish consumers rediscovered whisk(e)y during the last five years. They buy more year after year and the market does not seem to be heading for saturation soon. The sales of whisk(e)y in 2013 totalled 19 million litres and a value of PLN 1.8 billion.

6.6 million of regular whisk(e)y consumers

As many as 21 % of adult consumers in Poland, i.e. 6.6 million people, declare that they consume whisk(e)y on a regular or fairly regular basis. 18% of consumers drank whisk(e)y in the past month and 51 % did so in the course of the past year. This means that the market is far from being saturated.

Nearly twice as many men as women drink whisk(e)y at least several times a year. Moreover, whisk(e)y tends to be a more common choice of mature consumers (27% of consumers in the age group 40–54) but is relatively less popular among people under 40 (17–18%).

Sales grew six times since 2003

In recent years whisk(e)y has been among the most dynamic alcoholic beverages categories in general. Since 2004, sales of whisk(e)y have sextupled in terms of volume and quintupled in value. In 2013, the sales volume totalled 19 million litres, with PLN 1.8 billion of total consumer spending.

Blended Scotch whisky represents the greatest part of this market (14.9 million litres), although the sales of U.S. and Irish whiskey are expanding dynamically as well (3 million litres and 0.4 million litres respectively).

According to Euromonitor International, the purchase of whisk(e)y in Poland reached 0.6 litre per person legally entitled to purchase alcohol.

This is twice as much as in Slovakia (0.3 litre) and almost twice as much as in the Czech Republic or Hungary (0.4 litre each), and even slightly more than in Germany (0.5 litre). Nevertheless, consumption levels remain significantly lower than in the United Kingdom (1.5 litres) or France (2.8 litres).

Whisk(e)y is one of the very few categories generally viewed with optimism across the alcoholic beverages sector: as many as 81% of the interviewed companies think that the situation in this category is definitely good. Moreover, 93% of corporate respondents expect further growth in whisk(e)y sales in the coming years, at a rate of over 8% per year (quantity).

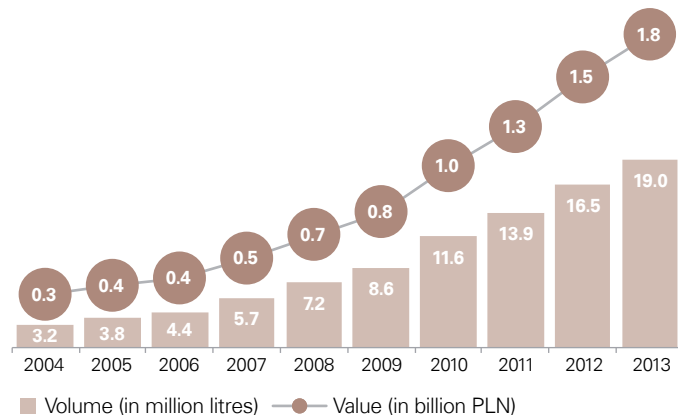
End of volume game, time to build value

Growth in the whisk(e)y market resulted from consumers' openness to more 'premium' categories versus vodka, which is still the leader in consumption structure. However, whisk(e)y would not have reached such a growth scale without significant price cuts on major brands, especially in the standard segment. Discount stores played an enormous role in encouraging consumers to this category. They offered attractively priced private labels and joined forces with distributors to launch world-renowned brands at much lower prices. However, the sector is unanimous in saying that distributors' volume-building strategies cannot be maintained in the long run and where the price of standard whisk(e)y is set at the level of quality vodka, this undermines the value of the category. All of the interviewed whisk(e)y distributors confirm that they will focus on restoring premiumness of whisk(e)y, well deserved by this category.

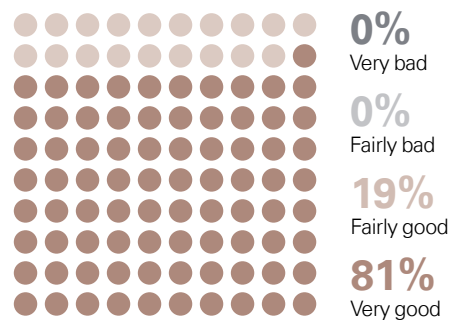
Spirits

The whisk(e)y market in Poland

Retail sales



Companies on current market situation



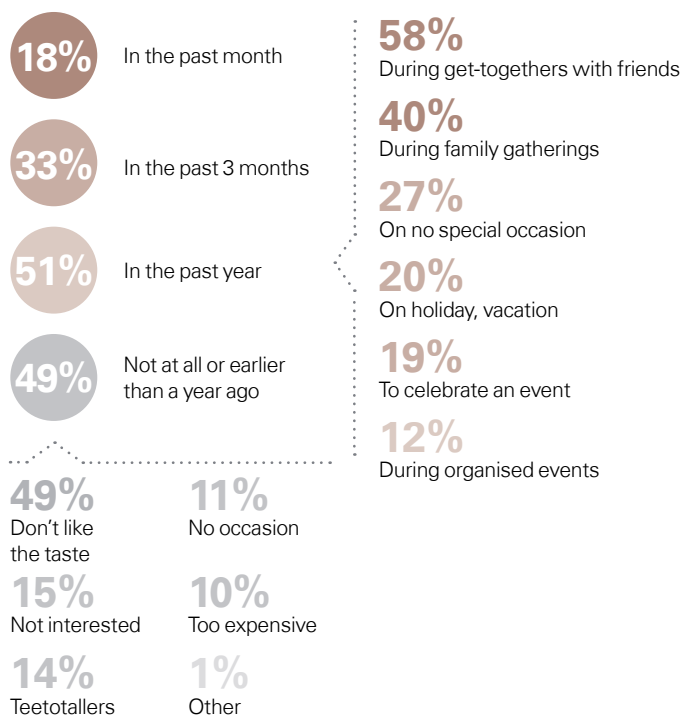
Companies on projected changes in sales volume



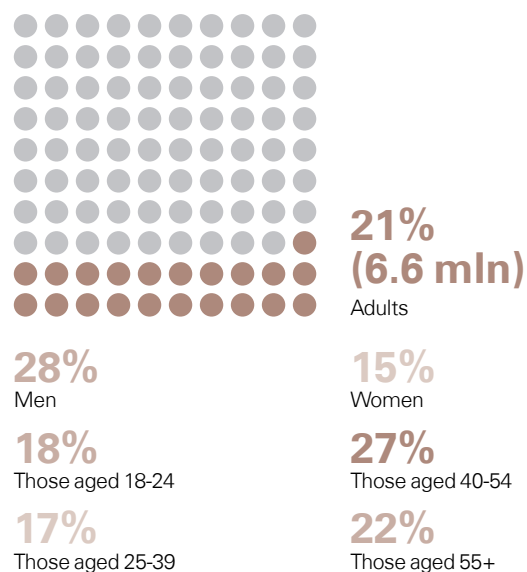
Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

Consumers of whisk(e)y

Adult consumers drank whisk(e)y



Consumers who had whisk(e)y at least a few times during the year



Source: KPMG in Poland. Based on a consumer survey



The whisk(e)y market in Poland

Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)



Source: KPMG in Poland. Based on a survey of companies from the market of alcoholic beverages

“The success of whisk(e)y as a category in Poland proves that consumer education is a perfect growth strategy. The category has been growing very dynamically in recent years, although in many segments sales grew more in quantity than in value. In Poland, whisk(e)y is not only popular but also viewed as a premium product and that's why it is even more important to avoid selling this product below its value, which would destroy its position and potential, carefully built for years. This is a premium product and in this case price reductions do not guarantee consumer loyalty or a stable market position. Building an image of uniqueness and value, combined with customer education to responsible consumption is the only long-term strategy that is likely to strengthen the category and drive its growth.

Mariusz Borowiak
General Director, Stock Polska



Spirits

” *There have been several reasons for the dynamic growth of the whisk(e)y category in Poland. First of all, we started off from a completely different volume of spirits consumption than the markets where the position of whisk(e)y had been shaped for generations. Before the political transformation in Poland vodka was almost the only type of spirits. The situation changed dramatically when the market opened up, new consumer behaviours developed and Poles became more open to a much wider range of alcoholic beverages, including whisk(e)y. Efforts of manufacturers and distributors were another factor, an equally important one. They intensified investments by broadening the product range, making it more affordable, and engaging in consumer education, making Polish consumers more familiar with whisk(e)y and spirits at large. Nowadays, the whisk(e)y market stands a chance for further growth, although the dynamics may decline a result of consistently increasing market penetration. It should be remembered, though, that many adult Poles who drink alcohol have not become familiar with whisk(e)y, and this will aid growth of standard whisk(e)y. On the other hand, those who bought standard whisk(e)y in the past will take their consumer exploration further by exploring the wide range of luxury whisk(e)y from specific regions or distilleries, such as whisky de luxe, single malt or Irish whiskey. Those segments have still a lot to offer to connoisseurs and are already growing faster than the category as a whole.*

Krzysztof Michalski
General Manager, Diageo Polska



” *The increasing popularity of whisk(e)y has been among the most spectacular effects of changing lifestyles and consumer trends. Consumers had been open to experiments and trying new kinds of alcoholic beverages for some time but whisk(e)y became affordable only in recent years. It ceased to be an exclusive product and consumers are no longer afraid of using it for mixed drinks. Obviously, such a considerable boost in sales would not have been possible without intensive price cuts that brought the cost of standard whisk(e)y close to that of premium vodka. However, such growth strategies cannot be maintained in the long run and the price rises will be inevitable. Nevertheless, this does not mean that the category will stop growing. Perhaps the dynamics will be lower than in recent years but the whisk(e)y market is still far from saturation.*

Manager responsible for marketing in a spirits company



5.6 Brandy and cognac

Brandy and cognac, the second key category of brown spirits, are not experiencing such a boom as whisk(e)y. They remain niche products, consumed sporadically, with a very small group of regular consumers, confined to mature and affluent drinkers. The sales of brandy and cognac in 2013 were almost four times as low as those of whisk(e)y, reaching 5.7 million litres and a value of consumer spending of nearly PLN 0.6 billion.

Drinking rarely, buying even less frequently

Although 39% of adult Poles drank brandy or cognac in the course of the past year, only 8% of the adult population (i.e. 2.4 million people) had it at least several times a year. Brandy and cognac are inseparably associated with get-togethers, and are consumed in the company of family or friends. Poles rarely buy brandy or cognac (only 18% in the past year) and if so, they buy it mainly for a gift (70%). Among the 61% of respondents who did not drink brandy or cognac at all in the last year, nearly a half claim they dislike the taste. Brandy and cognac are also commonly seen as too expensive yet the respondents were usually very reluctant to admit this reason behind their non-consumption.

Contrary to whisk(e)y, brandy and cognac are chosen almost exclusively by mature Poles: regular or relatively regular consumers can only be found among people aged over 40.

A stable market niche

The category of brandy and cognac has been growing very slowly since 2008 and represents a small proportion of the Polish spirits market. In 2013, Polish consumers bought 5.7 million litres of this category, among them 5.3 million litres of brandy and only 0.4 million litres of cognac. The value of retail sales reached PLN 594 million.

The alcohol sector is almost unanimous in saying that brandy and cognac have slim chances for growth and are likely to remain a stable niche. Manufacturers and distributors (not only in Poland) have not managed to persuade the mass consumer to drink brandy or cognac more often, to broaden the range of consumption occasions or to go beyond the tradition, e.g. towards mixology. Apparently, there are no attempts to attract more consumers by making the product more affordable. And yet, it seems that precisely those factors contributed to the market success of whisk(e)y.

” *Brandy and cognac are a stable category in Poland but, unlike whisk(e)y, for instance, they are not expanding and this trend is likely to stay. Especially cognac is a demanding type of drink. Because of its pricing but also deliberate manufacturers' policies, cognac is positioned as a luxury product, definitely not for everyday consumption. It is also a matter of consumers' choices because the same person who is happy to spend a few hundred zlotys on a bottle of single malt may not be interested in a bottle of good cognac.*

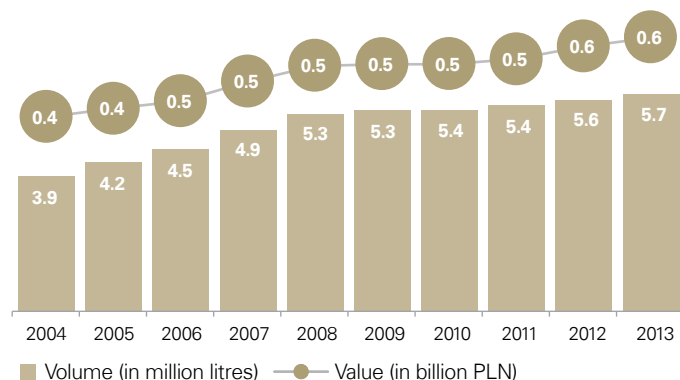
Piotr Imach

General Director, Domain Menada

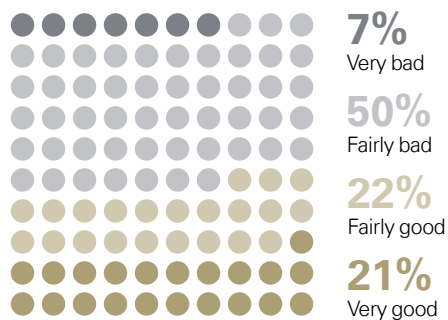
Spirits

The market of brandy and cognac in Poland

Retail sales



Companies on current market situation



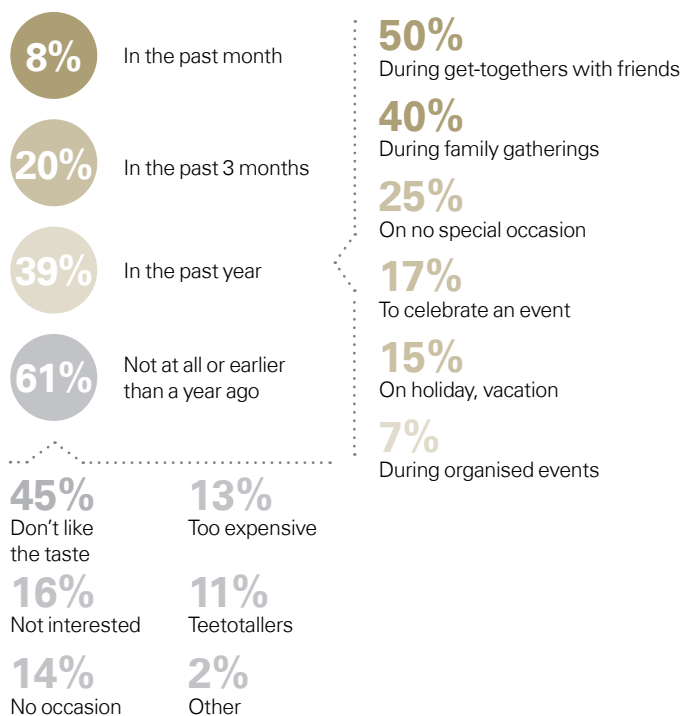
Companies on projected changes in sales volume



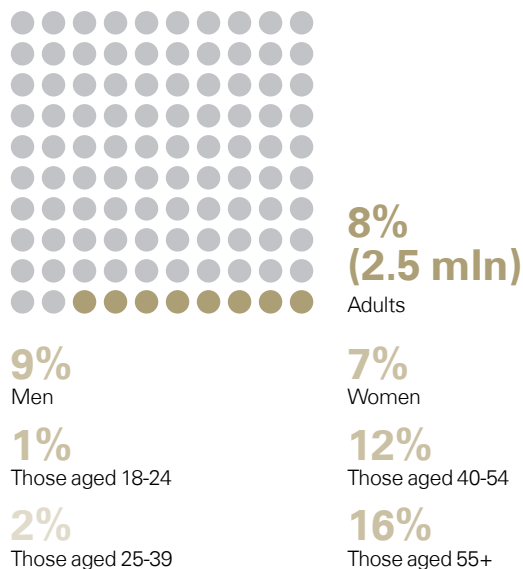
Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

Consumers of brandy and cognac

Adult consumers drank brandy and cognac



Consumers who had brandy and cognac at least a few times during the year



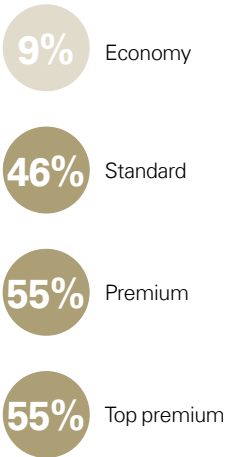
Source: KPMG in Poland. Based on a consumer survey



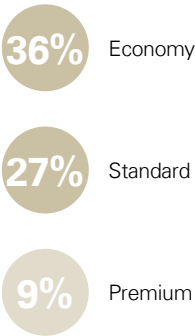
The market of brandy and cognac in Poland

Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)

Manufacturer brands



Retailer brands



Product type



Source: KPMG in Poland. Based on a survey of companies from the market of alcoholic beverages



Spirits



5.7 Rum

Rum is a niche category in Poland, consumed only by 3 in 10 adults in the past year. Judging by declarations, only 3% drink it regularly or relatively regularly. However, the market data show that the category of rum has been growing in Poland. In 2013, the sales of rum amounted to 512 thousand litres, reaching a value of PLN 72 million.

Poles drink rum rarely and irregularly, or at least are not aware of drinking it

The consumer study reveals that rum remains a niche category in Poland. Only 3% of adult Poles drink it several times a year and 28% have tried it during the past year. These answers suggest that Polish consumers are probably not always aware that the alcoholic beverage they drink is actually rum. Many consumers associate rum only with its golden variant and not with white rum, commonly used in mixed drinks. The popularity of rum-based drinks in the on-trade channel and wide availability of world-renowned white rum brands in retail (including popular distribution channels such as

discount stores) would imply that Poles actually drink more rum than they claim. On the other hand, there are products resembling rum in terms of taste and packaging design which, in fact, are not rum.

A small yet dynamically growing category

Between 2009 and 2013, retail sales of rum (excluding rum-flavoured alcoholic beverages) doubled, from 245 thousand to 512 thousand litres. In 2013, Polish consumers spent PLN 72 million on rum. Retail chains, especially discount stores, played a role in popularising this category. According to Euromonitor International, retailers' private labels accounted for almost 18% of the market in 2013, whereas in 2009 they did not play a significant role.

Although rum remains a niche and a very small category, representatives of the sectors believe it has relatively good growth prospects (although the growth rate may be lower than in recent years). This will be facilitated by consumer trends associated not only with premiumisation but, above all, with the growing popularity of mixology.

”

There is no doubt that rum as a category has enormous potential and will grow in future.

Rum can be drunk in many ways but mixology, that is the art of making cocktails, plays a key role for the category. Mixing rum with cola or making a mojito are still the most popular ways to drink rum but we can see that consumers are not afraid of experimenting. Poles are very willing to surprise their friends with unusual drinks or even to blow their trumpet in the social media that they know how to prepare things that are more sophisticated than vodka with juice or cola. And rum offers really vast options in this respect.

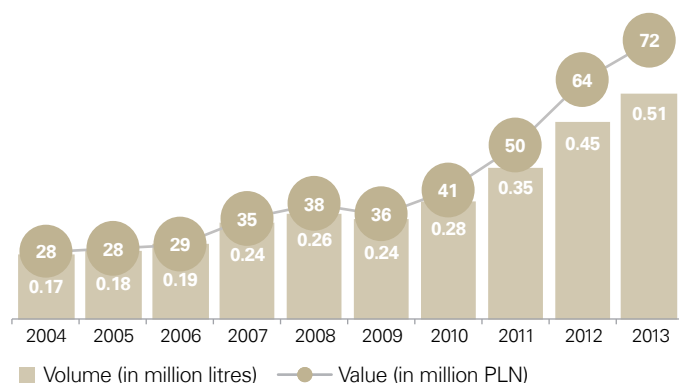
Ivar Aus

Country Manager Poland & Baltics, Bacardi Martini

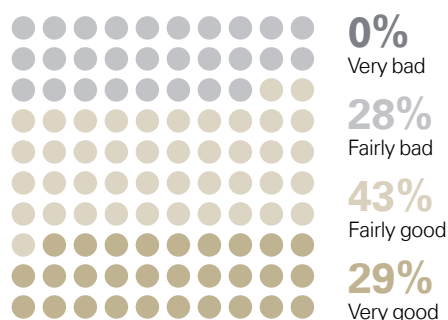


The rum market in Poland

Retail sales



Companies on current market situation



Companies on projected changes in sales volume

2014



2015

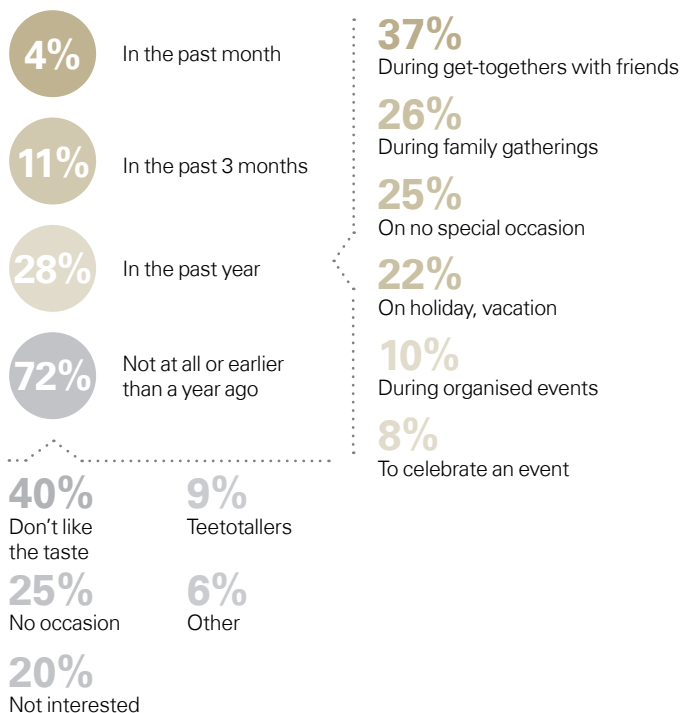


Data do not include rum-flavoured spirits.

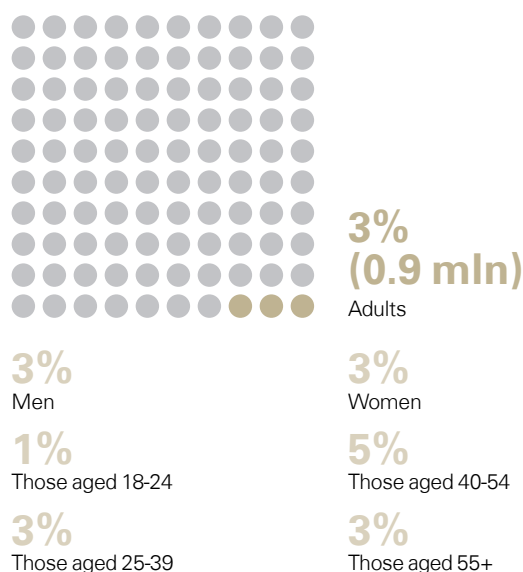
Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

Consumers of rum

Adult consumers drank rum



Consumers who had rum at least a few times during the year



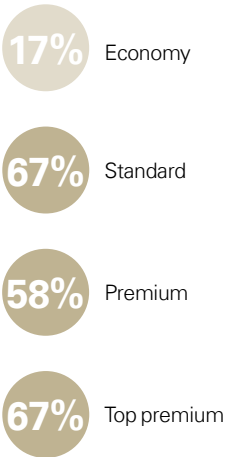
Source: KPMG in Poland. Based on a consumer survey

Spirits

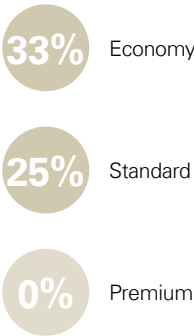
The rum market in Poland

Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)

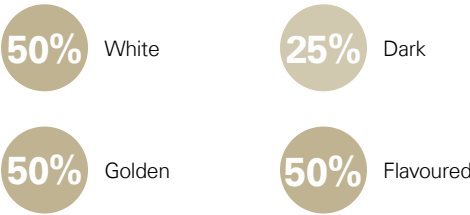
Manufacturer brands



Retailer brands



Product type



Source: KPMG in Poland. Based on a survey of companies from the market of alcoholic beverages





5.8 Gin

The gin market has been expanding systematically, supported by consumers' increasing interest in mixology. The sales of gin in 2013 totalled 1.95 million litres and PLN 119 million. Although few consumers drink gin on a relatively regular basis (only 4% of adult Poles), a total of 28% of Poles drink gin during the year.

Popular with women

Poles drink gin only occasionally: 28% of adult Poles drank gin in the course of the past year and only 4% did so several times. The main reason is the specific juniper flavour, rejected by 42% of those who do not drink gin. Women (5%) are more likely than men (3%) to consume gin regularly. Moreover, this beverage tends to be more popular with mature consumers.

Future prospects: stabilisation or gradual growth

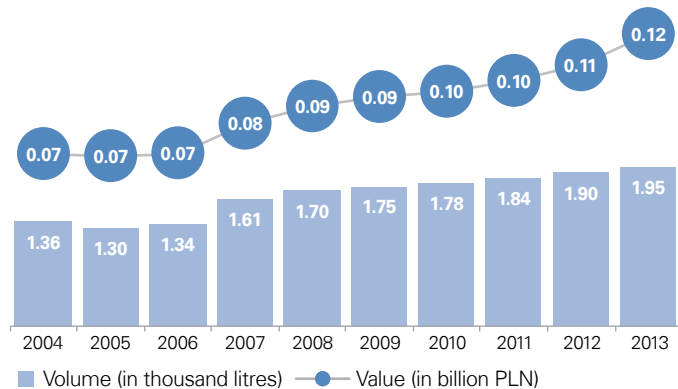
The sales of gin have been growing slowly yet steadily. Although gin is a traditional alcoholic beverage, available in Poland for years, the growth of consumption is facilitated by the increasing importance of mixology. In 2013, Polish consumers bought 1.95 million litres of gin, spending PLN 119 million on it. Future prospects for the category are relatively good. A significant proportion of the respondents expect either stabilisation or gradual growth of sales despite unfavourable regulatory changes, and few companies anticipate dynamic growth.



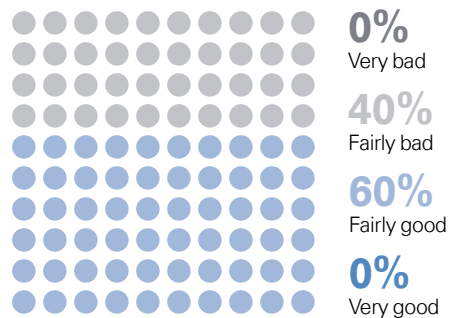
Spirits

The gin market in Poland

Retail sales



Companies on current market situation



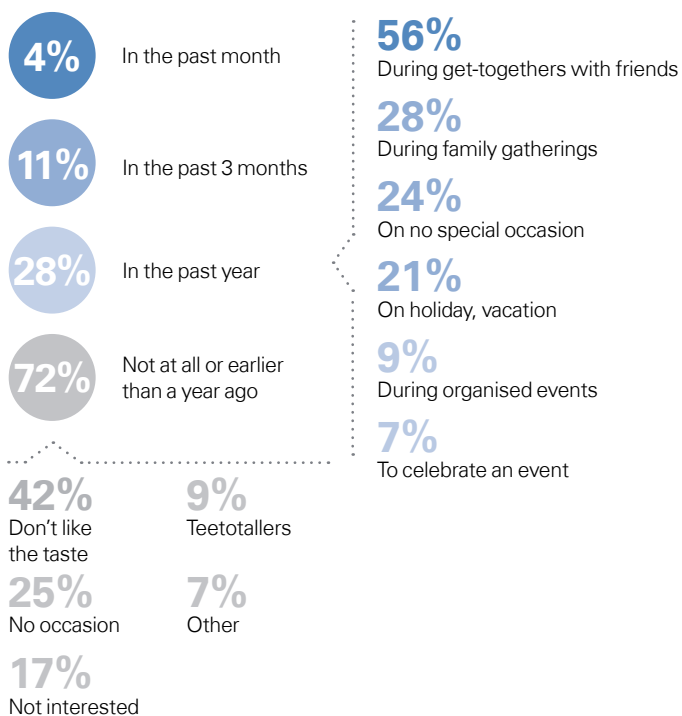
Companies on projected changes in sales volume



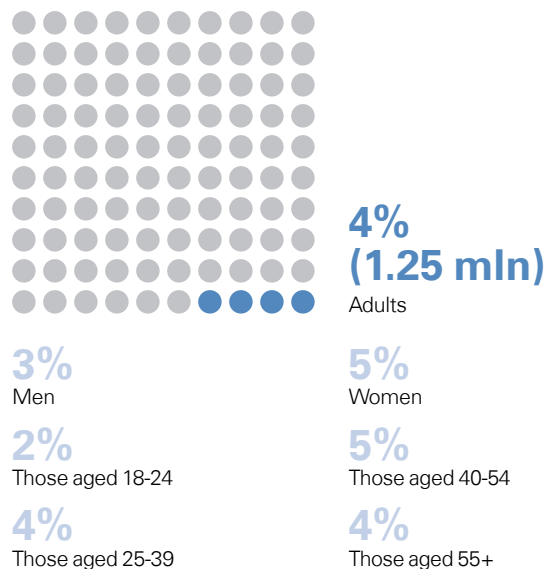
Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

Consumers of gin

Adult consumers drank gin



Consumers who had gin at least a few times during the year



Source: KPMG in Poland. Based on a consumer survey



5.9 Tequila

In 2013, Polish consumers bought 150 thousand litres of tequila and spent PLN 21 million on it. Although the sales of this category have been rising for years, it continues to be a niche among spirits. Although 1 in 5 adult Poles drinks tequila occasionally, yet very few consumers (merely 2%) drink it at least on a fairly regular basis.

Tequila only for occasional consumption

Tequila is a poorly known category in Poland, and consumers opt for it only occasionally. Nearly 80% of adult Poles have never tried it or did not have it in a long time. Tequila is a typical party drink, consumed mainly during social gatherings.

Consumers who drink tequila at least several times a year make up a very small group: only approx. 2% of adult Poles, both men and women. Contrary to expectations, it is not necessarily a product for young people: in fact, it is a regular choice for mature consumers, aged 40–54.

A growing yet small market

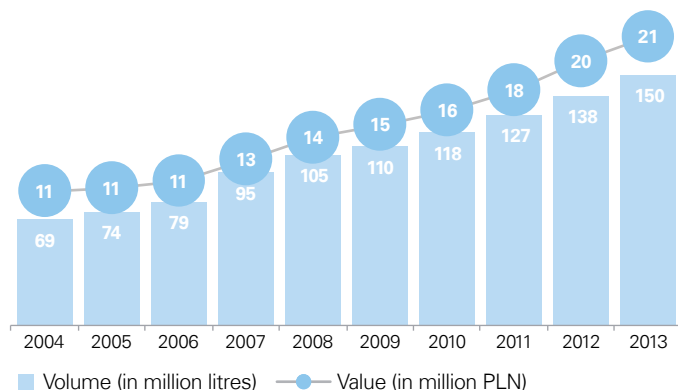
Since 2004, retail sales of tequila in Poland have more than doubled. In 2013, its sales reached 150 thousand litres, with the retail value coming close to PLN 21 million. Despite this dynamic growth, tequila remains a niche category among spirits in general.

The gradual change in lifestyle and consumption patterns, including the growing interest in less known categories of spirits as well as the increasing popularity of going out will facilitate further gradual growth of tequila sales in Poland. This conclusion is confirmed by managers from the spirits market, many of whom expect a systematic growth of this category.

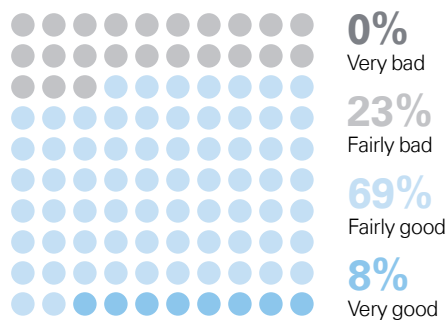
Spirits

The tequila market in Poland

Retail sales



Companies on current market situation



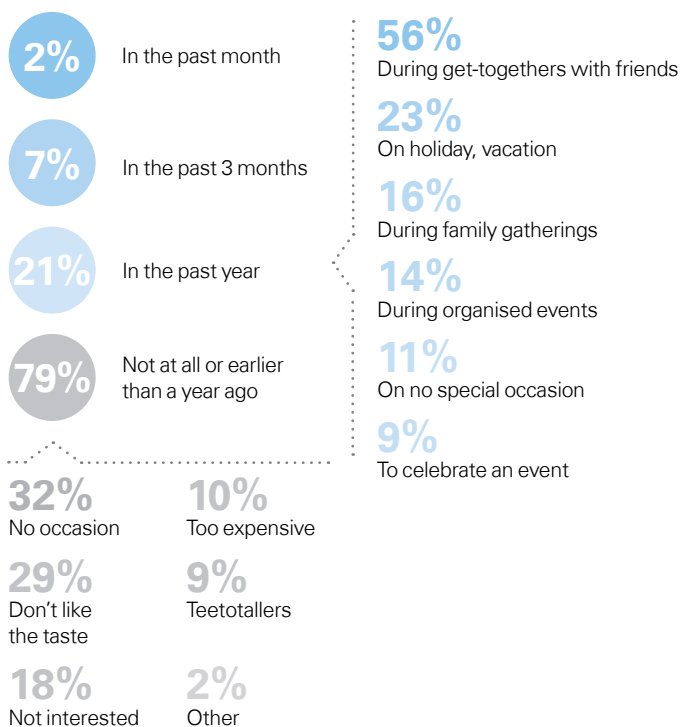
Companies on projected changes in sales volume



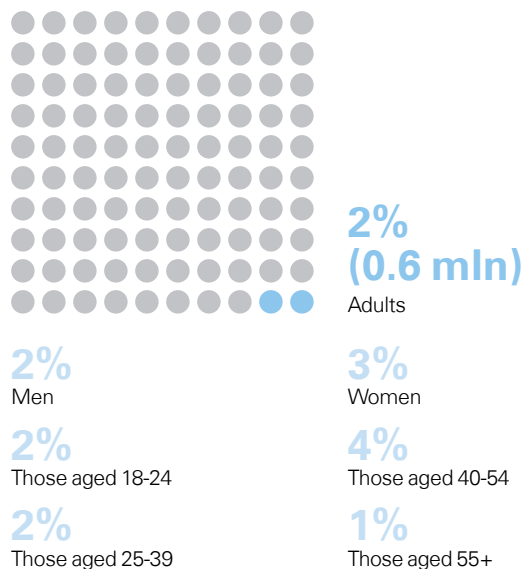
Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

Consumers of tequila

Adult consumers drank tequila



Consumers who had tequila at least a few times during the year



Source: KPMG in Poland. Based on a consumer survey



5.10 Manufacturers and importers

As a result of progressive concentration of spirits production and distribution, competition has become significantly fiercer. In recent years, most market players strongly focused on building a quantitative market share, which significantly promoted the price as the key selection criterion while undermining profitability of sales. The increase in excise duty on spirits only aggravated this trend.

Increasing concentration

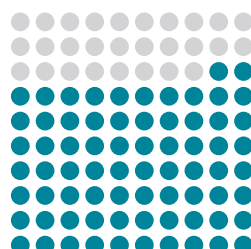
The spirits market in Poland is highly concentrated and its concentration has been increasing year after year. In 2013, three major players, focused mostly on vodka in the broad sense (Stock, CEDC and Belvedere Group) accounted for almost 72% of the sales volume of spirits in Poland. Those players expanded their market share at the expense of smaller manufacturers/distributors (except those specialising in whisk(e)y). In parallel, we have seen retailers' private labels growing significantly in importance.

Competition getting tougher

The far-reaching market concentration is coupled with some players' strong focus on building sales volume at the expense of margins, which means that price is the main competitive factor. This situation has markedly undermined profitability of the sector and reinforced the role of price among consumers. This has affected all major segments of spirits, particularly vodka, low-proof flavoured spirits and whisk(e)y.

The spirits market in Poland

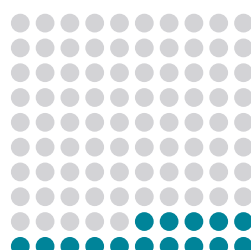
Segments, key players and their market shares (2013/2008)



Major companies focused on standard products and categories

Stock Polska, CEDC, Grupa Belvedere

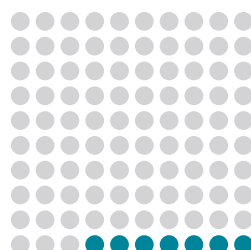
71.9%/64.2%



Medium-sized companies focused on premium products and categories

Pernod Ricard, Brown-Forman, Diageo

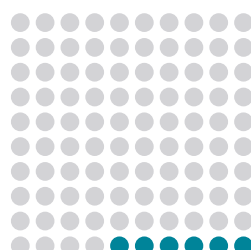
14.9%/17.4%



Smaller companies operating in market niches

Śląska Wytwórnia Wódek Gatunkowych POLMOS, Akwawit Polmos, HENKELL & CO. VINPOL Polska, Podlaska Wytwórnia Wódek Polmos SA w Siedlcach, BACARDI-MARTINI POLSKA, PPS POLMOS W WARSZAWIE, POLMOS ŻYRARDÓW

6.9%/17.3%



Retailers

Private labels

6.3%/1.1%

Source: KPMG in Poland. Based on data from Euromonitor International and own research

Spirits

5.11 Retail distribution channels

Although the on-trade channel currently accounts for only 8% of retail sales of spirits and its popularity among mass consumers is low, companies expect it to grow. As regards the off-trade channel, which accounts for the rest 92% of the sales volume, small shops are losing importance in favour of discounters and supermarkets. Which stores have the future? The sector believes that discount stores are going to be the main players, though also off-license and specialist stores as well as supermarkets have good prospects.

Small trade shrinking yet still dominant

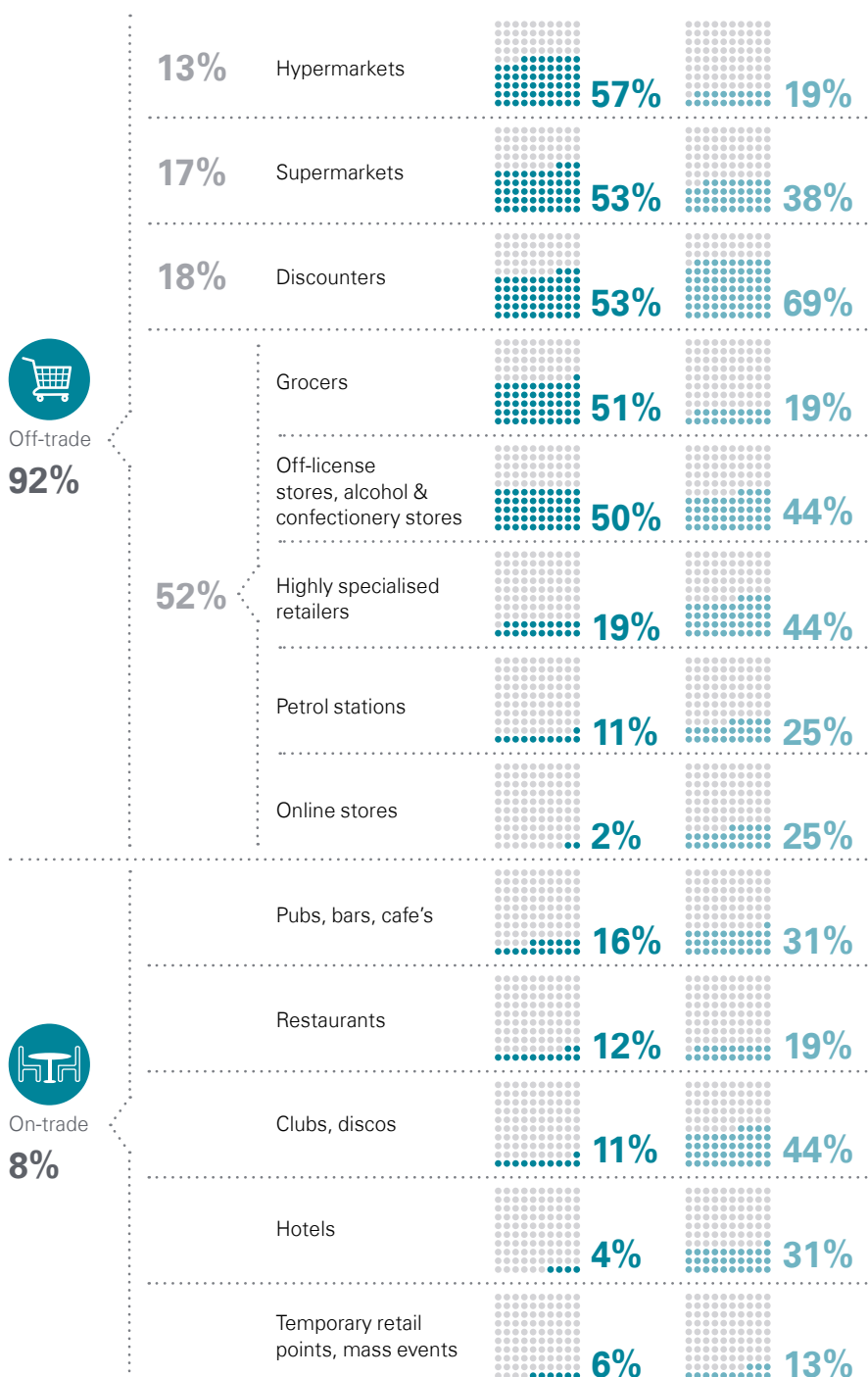
Small retail shops remain the key sales channel for spirits in Poland. In 2013, they accounted for 52% of the sales volume in the off-trade channel. Despite declining importance (their share was 67% in 2008), they are still a very popular channel with consumers. The survey reveals that 50% of active purchasers bought spirits in off-license stores and 51% did so in grocer's shops in the course of the past year. Moreover, spirits are relatively frequently purchased in highly specialised stores (19%) and less frequently at petrol stations (11%).

Contrary to the general trend whereby the share of small retailers is shrinking, not all of those small retailers are doomed to marginalisation. The interviewed companies very frequently (44%) mentioned off-license stores and specialist stores as channels with the highest growth potential.

Some hopes are also associated with petrol stations and on-line shops, though in both cases a lot will depend on potential changes in the regulatory environment.

The spirits market in Poland

Retail distribution channels



X% – share of this channel in the current sales volume (2013)

● **Current popularity** – percentage of consumers who buy the type of alcoholic beverage in this channel

● **Growth potential** – percentage of companies which believe that this channel will grow in importance in the category concerned (the respondent could indicate max. 3 channels)

Source: KPMG in Poland. Based on data from Euromonitor International, a consumer survey and a survey of companies from the alcoholic beverages sector



Discount stores and supermarkets winning the market

The expansion of modern large-format retailers, observed in the course of the past years, will be difficult to stop. The share of such stores in the off-trade sales of spirits increased from 33% in 2008 to 48% in 2013, with particularly marked growth recorded for discounters (from 6% to 18%) and supermarkets (from 12% to almost 17%). Interestingly enough, although hypermarkets have been losing their share in volume, they continue to be the most frequently chosen type of store. 57% of spirits buyers shopped in hypermarkets in the course of the past year. This means that, contrary to other product categories, consumers do not stock up on spirits in hypermarkets. The spirits sector is almost unanimous in saying that the future belongs mainly to discounters (69% of mentions) and, to a lesser extent, to supermarkets (38%).

Clubs, bars and hotels: small but likely to grow in importance

In 2013, the broadly understood on-trade channel accounted for 8% of retail sales of spirits in Poland. It is mostly chosen by more affluent and younger consumers. In the course of the past year only 16% of all the active spirits buyers bought their drinks in pubs, bars or cafe's, 12% did so in restaurants and 11% in clubs and discos.

Although the on-trade channel plays a relatively insignificant role in the market as a whole, the spirits sector sees significant potential there. When asked about the most promising channels, the interviewed companies very frequently indicated pubs, bars and cafe's (31%), clubs and discos (44%) and hotels (31%), the latter being fairly insignificant so far. These channels play an important role for the spirits sector also for another reason: given the far-reaching restrictions on advertising in the media and public space, on-trade becomes a very important channel for marketing communication with consumers.

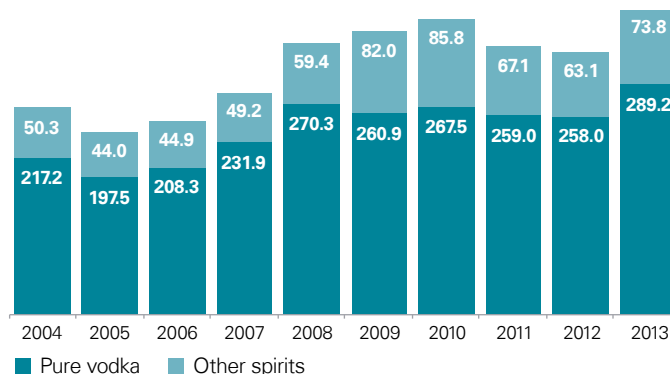
Spirits

5.12 Production and exports

Given the stagnant domestic market, expansion to foreign markets offers a chance for Polish manufacturers of alcoholic beverages to improve their situation. It has been the case in recent years and, despite the turbulences in 2012 and 2013, an increase in the export of spirits manufactured in Poland can be observed in the long run. This growth is facilitated by Poland's excellent reputation as a vodka producer, the recognition of Polish vodka as a PGI product as well as the fact that most manufacturers belong to multinational groups.

The spirits market in Poland

Production (in million litres)



For other spirits, the value of production sold is shown

Source: Estimates by KPMG in Poland based on data from the Central Statistical Office of Poland (GUS) and Eurostat

” In mid-1980s, vodka output in Poland reached over one billion litres whereas now only slightly more than three hundred million litres are produced. This was a result of the dominant position of vodka in domestic consumption but also huge exports to Western markets and to Eastern Bloc countries. However, even now Poland remains the largest vodka market in the European Union and the fourth largest one in the world. Currently, vodka is now among the fastest growing spirits categories worldwide, although Polish manufacturers do not fully benefit from this growth yet. What can be done to give Polish vodka its well-deserved place on international markets?

The first step has been made: the product has been officially recognised and can be marked with geographical indication 'Polska Wódka/Polish Vodka'. Starting from 13 January 2013, it was confirmed by law that Polska Wódka is a unique product, closely associated with a particular geographical region, in the same way as cognac, champagne, tequila or scotch whisky. Another key factor is the need for greater involvement on the part of Polish public institutions. During a recent audience with Pope Francis, the British Queen offered him a bottle of whisky. Meanwhile, our institutions still feel embarrassed to promote vodka as part of their official activities, as if forgetting that Polska Wódka is the only Polish global brand and a product which is most strongly associated with our country. Undoubtedly, also manufacturers' determination is needed to promote Polish vodka on international markets as this represents an important growth opportunity for Polish manufacturers (at least for those focused on building strong brands). It is unlikely that they will run out of determination because, as we have seen, a success of a vodka brand abroad opens new markets but it also translates into rising sales in Poland. Poles are very sensitive to other people's opinions about ourselves and we tend to put a greater value on domestic products that have been appreciated by foreign consumers. On the other hand, in order to expand on international markets we need a stable situation on the domestic market but the most recent regulatory changes do not facilitate it.

Andrzej Szumowski

Vice-President of Management Board, Pernod Ricard
President of the Polish Vodka Association





Rising production in 2013 not a source of optimism

In 2013, approx. 363 million litres of spirits were manufactured in Poland, of which pure vodka represented 289 million litres and other spirits accounted for almost 74 million litres. This means that manufacturers supplied over 40 million litres more than the previous year.

After two years of decreases, this result might theoretically be considered positive for the sector. However, the real reason for this increase lies in the new excise duty (by 15% higher) that came into effect on 1 January 2014: manufacturers and distributors rushed to build stocks of spirits with the lower excise duty towards the end of 2013.

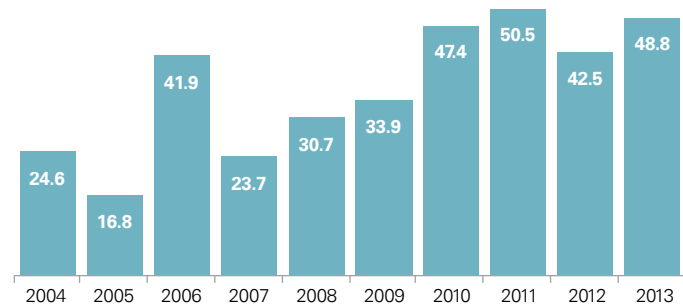
A correction was seen immediately. In Q1 of 2014, the output of pure vodka y/y dropped by almost 35%. Later on, the spirits sector regained a relative balance but vodka production in the first half of 2014 was still by over 22% lower than one year earlier.

Foreign markets: an opportunity for manufacturers

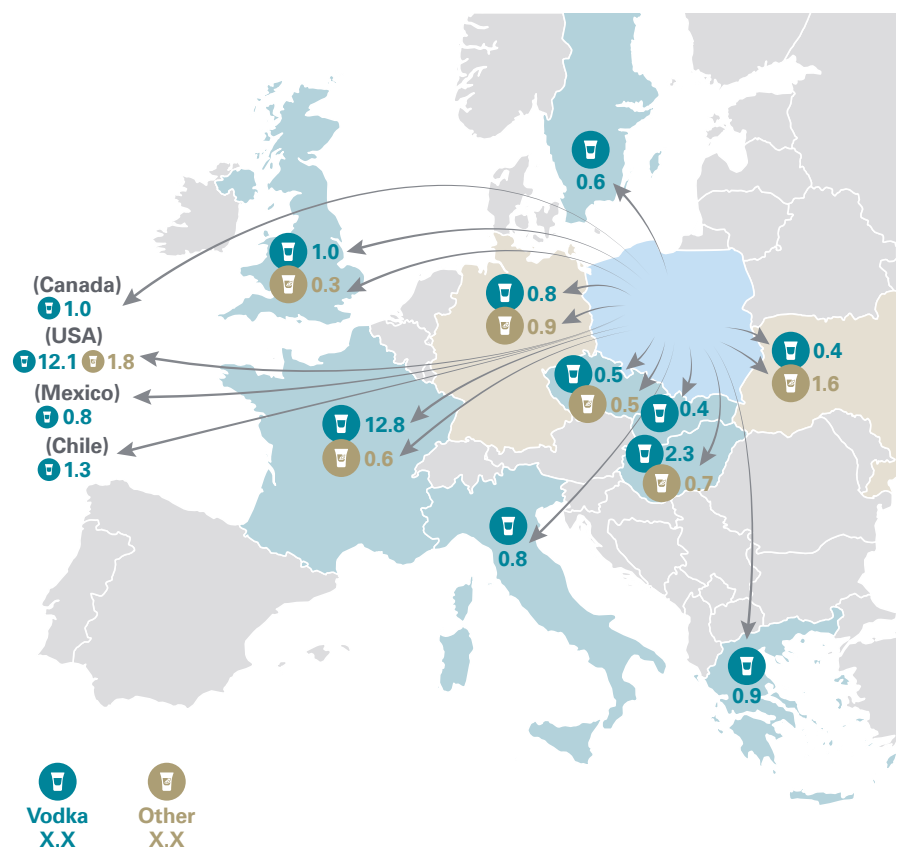
Given the relatively bleak prospects for vodka sales on the domestic market, manufacturers increasingly explore foreign markets. Polish vodka, appreciated by foreign markets for years, is the key export product with the greatest potential on other markets.

The spirits market in Poland

Exports (in million litres)



Key export destinations (in million litres)



Source: KPMG in Poland based on data from the Central Statistical Office of Poland (GUS)

Spirits

The definition of geographical indication '*Polska Wódka/Polish Vodka*' has been a significant step towards strengthening the brand on international markets.

In accordance with the act that came into effect on the 13 January 2013, the indication '*Polska Wódka/Polish vodka*' can only be used for alcoholic beverages based on water and alcohol of agricultural origin made of potatoes, rye, wheat, oat or barley, where the entire production takes place in Poland. The indication does not exclude added flavours or colorants, which means that '*Polska Wódka/Polish Vodka*' may also indicate flavoured products.

Will manufacturers embrace the opportunity and start conquering foreign markets? The odds are they will, although local problems do not facilitate investments in international expansion. In 2013, approximately 48.8 million litres of spirits were exported from Poland, i.e. twice as much as in 2004 (when Poland joined the EU) but less than in 2011. Vodka (though not necessarily '*Polska Wódka/Polish Vodka*') accounted for 40.2 million litres in the export volume. Major foreign target markets for Polish vodka include France (12.8 million litres) and the United States (12.1 million litres). Significantly smaller quantities, though also exceeding 1 million litres, were exported to Hungary, the United Kingdom, Canada as well as to less obvious destinations such as Chile. Significant target markets also include Germany, Italy, Sweden, Greece and Mexico.





5.13 Situation of companies

Thanks to progressive premiumisation of the spirits sector, a small increase of margins was achieved in 2013. However, the rise of excise duty and manufacturers' efforts to adapt to the new situation will certainly undermine the sector's profitability in 2014. Not surprisingly, spirits companies view the excise duty regulations as the main obstacle to their growth. The second key barrier is also associated with the regulatory framework, i.e. restrictions on the promotion of alcoholic beverages.

2013 brings slight improvements to financial standing

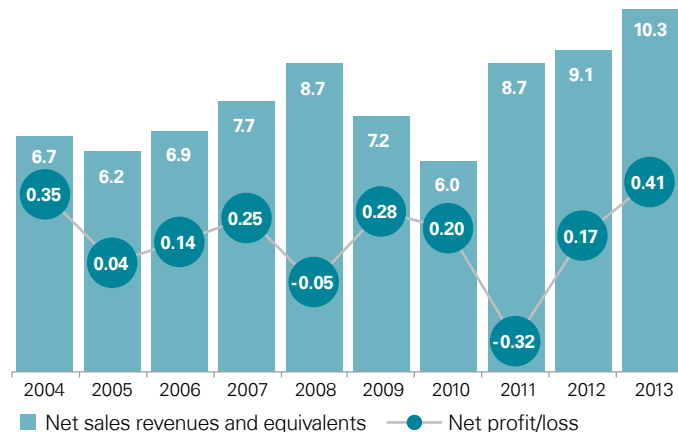
In 2013, spirits manufacturers managed to increase their margins slightly. Although the profitability level is still very low, this is a very positive sign in the sector where net profits are not at all obvious. Even though the financial performance of the sector is also driven by the production of spirit for industrial purposes, the main reasons include: progressing premiumisation and consumers' openness to innovations, which translate into a rising share of high-margin products in total sales. For this reason, companies tend to view their financial situation relatively positively, and this holds especially true for distributors focusing on premium products.

Excise duty regulations as the key barrier for the sector

This relatively optimistic picture may be upset by the consequences of the increased excise duty on spirits which came into effect in 2014, forcing spirits companies to take adaptive measures and strengthening price competition. As a result, a decline in margins earned by the sector can be expected once again in 2014. It is hardly surprising that all spirits companies mention excise duty regulations as the main factor that affects their financial performance and inhibits growth.

The spirits market in Poland

Companies' financials (in PLN billion)

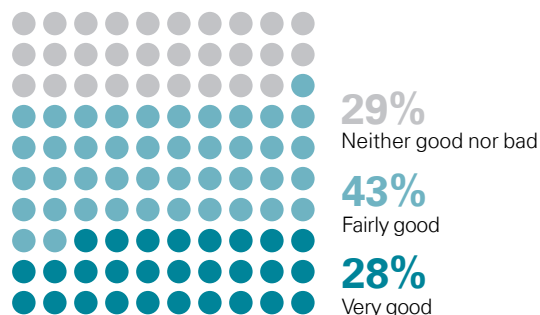


The data cover manufacturers of spirits and ethyl alcohol.

Given a change in classification, the data for 2004–2009 and 2010–2013 are not fully comparable.

Source: KPMG in Poland based on data from the Central Statistical Office of Poland (GUS)/Effect

Companies' assessment of their own financial standing



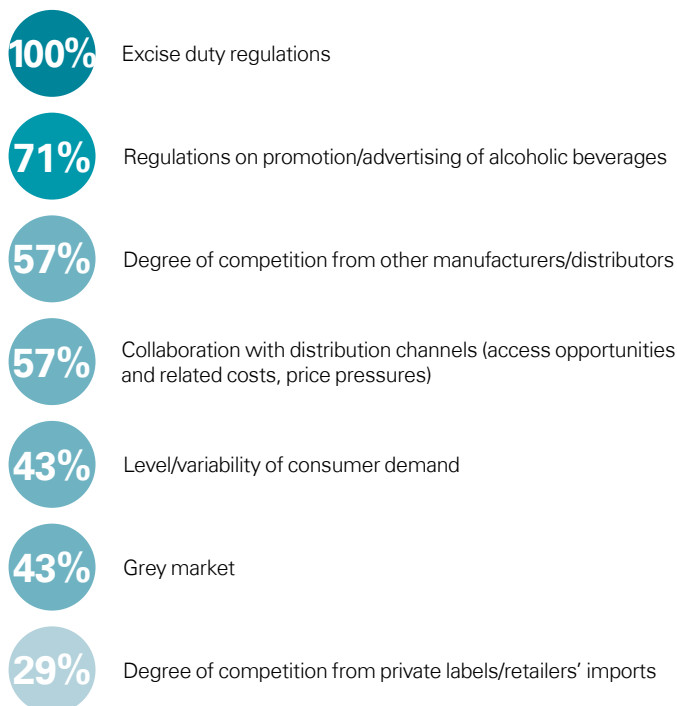
Source: KPMG in Poland. Based on a survey of companies from the market of alcoholic beverages

Spirits

Restrictions imposed on promotion and advertising are the second key barrier for spirits companies. The prohibition of advertising in the mass media is a serious impediment for companies which want to build their brand equity in this segment. It significantly restricts manufacturers' possibilities to communicate with consumers about their products. Moreover, the degree of competition as well as cooperation with distribution channels are very frequently mentioned as obstacles. The grey market of spirits is a barrier which is specific to this segment.

The spirits market in Poland

Main factors affecting companies' performance and growth



Companies were asked to identify up to 4 key barriers

Source: KPMG in Poland. Based on data from a survey of companies from the alcoholic beverages sector

A close-up photograph of numerous golden, spherical bubbles or droplets on a metallic, reflective surface. The bubbles vary in size and are scattered across the frame, with some in sharp focus and others blurred in the background. The lighting creates bright highlights and deep shadows, emphasizing the three-dimensional nature of the bubbles. A solid blue diagonal band cuts across the upper right portion of the image, serving as a background for the 'RTD' text.

RTD

RTD



“Although relatively small, the RTD market in Poland has been expanding, in terms of products offered and volumes sold. These products are sold relatively frequently in the on-trade channel, in situations connected with socialising and fun. RTDs are a popular choice for women and young consumers. Given that drinking occasions and consumers are very similar, RTD are facing very powerful competition from flavoured beer and beer blends, losing the battle due to advertising restrictions. Also, cider has recently emerged as a new competitor. There have been attempts to create RTD on the basis of beer wort to make it eligible for advertising. However, the idea hasn't gone down too well. Potentially, there is also room for wine-based RTDs yet consumers in Poland definitely prefer mixed drinks based on classic spirits such as vodka or whisk(e)y.

Robert Kabot
Head of Marketing,
Sobieski Group



Ready-to-drink (RTD) alcoholic beverages are chosen mostly by young consumers, particularly women. In the course of the last year, at least 35% of adults had such a drink once or more times. Despite restrictions on advertising and considerable competition from flavoured beer, beer blends and cider, the RTD market has been growing, reaching a volume of 9 million litres and a value of PLN 146 million in 2013.

Young women opt for RTDs

A total of 7% of adult Poles admit drinking RTDs at least a few times a year. In fact, RTDs are probably slightly more popular but consumers do not attach much importance to them, and do not view them as 'their own' alcoholic beverage. At the same time, 9% claim they had RTDs in the last month and 18% admit the same behaviour for the past quarter.

There are nearly twice as many women as men among over 2 million of regular or relatively regular RTD drinkers: this type of beverage is consumed by one in ten women and one in twenty men, most of them being young people aged 18–24 (16%), well-educated, predominantly from large and very large cities. Older consumers show much less interest in RTDs.

RTD on the rise despite strong competition

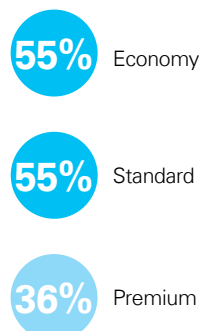
Since 2008, the RTD market in Poland has been expanding in terms of sales volume at an annual rate of more than ten per cent. In 2013, retail sales reached PLN 9 million litres and a value of PLN 146 million. One singularity of the Polish RTD market is that it owes its popularity nearly exclusively to products based on spirits whereas global markets also offer other blends, e.g. based on wine.

The key barriers to expansion in this category include lack of advertising opportunities and strong competition from flavoured beers, radlers and shandy (all of which may be advertised). Potentially, with its growing popularity, also cider/perry may emerge as a strong competitor for RTDs. Nevertheless, most companies expect the category to grow.

The RTD market in Poland

Categories expected to grow in importance in the next two years (percentages of mentions in the survey of companies)

Manufacturer brands



Product type



Retailer brands

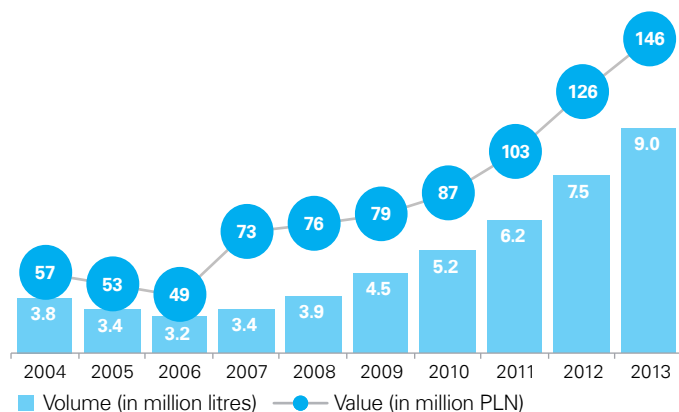


Source: KPMG in Poland. Based on a survey of companies from the market of alcoholic beverages

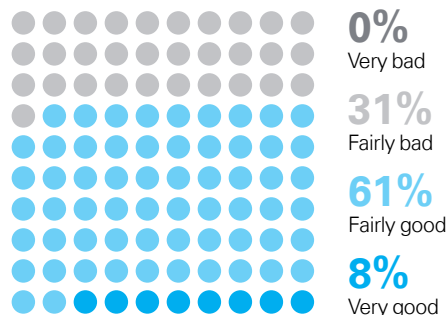


The RTD market in Poland

Retail sales



Companies on current market situation



Companies on projected changes in sales volume

2014



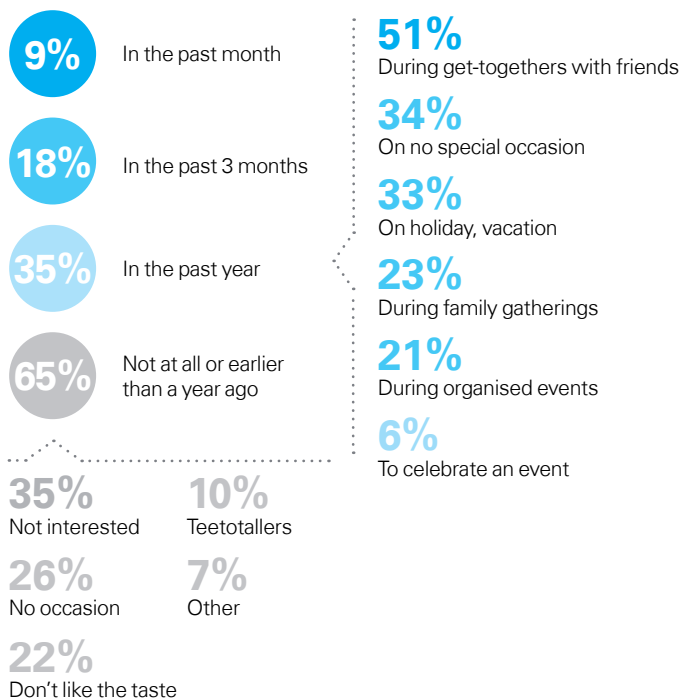
2015



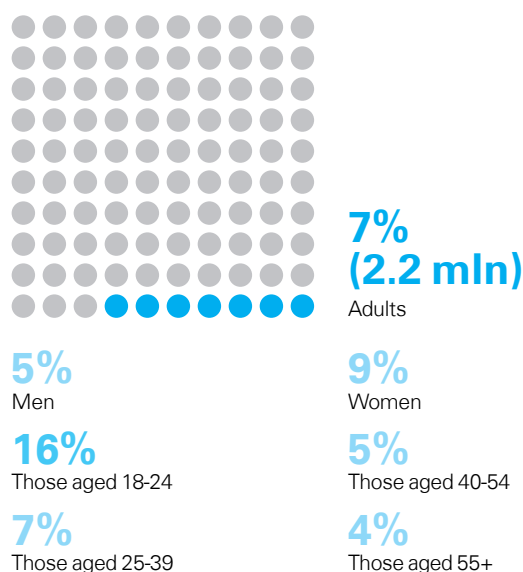
Source: KPMG in Poland. Based on data from Euromonitor International and a survey of companies from the alcoholic beverages sector

RTD consumers

Adult consumers drank RTD



Consumers who had RTDs at least a few times during the year



Source: KPMG in Poland. Based on a consumer survey



6

Excise duty on alcoholic beverages

6.1 The EU context, subdivision into types, and minimum excise duty rates

The excise duty is an indirect tax charged on some product types, the most important ones of them being: fuels, tobacco products and alcoholic beverages.

Excise duty on alcoholic beverages is a tax which must be imposed in compliance with the EU legislation. Two directives are the essential legal acts here: Council Directive 92/83/EEC of 19 October 1992 on the harmonization of the structures of excise duties on alcohol and alcoholic beverages,

and Council Directive 92/84/EEC of 19 October 1992 on approximation of the rates of excise duty on alcohol and alcoholic beverages, both of which are referred to as 'structural directives'. Those directives are not directly applicable, i.e. their provisions must be introduced through national legislation. However, EU member states have relatively limited freedom in defining the taxation rules on alcoholic beverages.

EU regulations do not strictly harmonise excise duty rates yet they provide for minimum levels of excise-based taxation which each member state must adhere to. EU legislation defines five groups of alcoholic beverages, each with a different assessment base and a minimum excise duty rate: beer, wine, fermented spirits, intermediate products and ethyl alcohol.

Categories of alcoholic beverages identified in EU legislation on excise duty

Category	Assessment base	Minimum standard rate in the EU (2004)
Beer Essentially malt beer, as well as blends of beer and soft drinks	Number of hectolitres and degrees Plato	EUR 0.748 x 1 hL x 1 degree Plato
	Number of hectolitres and ethyl alcohol 100% ABV	EUR 1.87 x 1% alc. 100% ABV
Wine Wine made from fresh grapes, incl. sparkling wine where all of the alcohol comes exclusively from fermentation	Number of hectolitres	0 EUR
Fermented beverages Beverages other than beer and wine, where all of the alcohol comes from fermentation (e.g. fruit wine, cider, mead etc.)	Number of hectolitres	0 EUR
Intermediate products Fermented alcoholic beverages fortified with distilled ethyl alcohol	Number of hectolitres	EUR 45 x 1 hL
Ethyl alcohol Any products with ethyl alcohol volume from distillation exceeding 1.2%	Number of hectolitres of 100% ABV (pure alcohol)	EUR 1000 (or EUR 550) x 1 hL alc. 100 % ABV

EU regulations offer the possibility to apply reduced rates in some situations. However, calculation of those rates goes beyond the scope of this report.
Source: KPMG in Poland

6.2 Excise duty rates in Poland

The Polish Act on Excise Duty of 6 December 2008 (Dz.U. – Official Journal of 2014, item 752, as amended) defines product subgroups and assessment bases in accordance with EU requirements.

The comparison presented here shows that the excise duty on all alcoholic beverages significantly exceeds the EU minimum. Another aspect worth noting is the significant increase in excise duty on spirits since 1 January 2014 whereby the rate of PLN 4,960 per 1 hL of ethyl alcohol 100% ABV in a finished product rose to PLN 5,704.

In order to compare effective taxation levels for excise duties on alcohol contained in various categories of alcoholic beverages we need to make relevant calculations bearing the following factors in mind: various assessment bases applied, varied alcohol content, differing sizes of commercial packaging, varied price categories etc.

In order to make such a comparison, we conducted a calculation to present how much excise duty is due per 1 litre of ethyl alcohol 100% ABV after it has been 'extracted' from various categories of alcoholic beverages. This sort of calculation is very easy for spirits since the assessment base for excise duty already refers to 100% alcohol contained in it. As regards the remaining products,

we need to make assumptions regarding the alcohol contained in the finished product because this parameter is not permanent and may vary considerably. In addition, in the case of beer where the assessment base refers to degrees Plato, we need to consider the content of alcohol. The summary table presented below is based on the assumption that standard beer with a strength of 5% ABV will have 12.5 degrees Plato.

This calculation, made with the aforementioned assumptions, indicates that effective taxation is highest for alcohol contained in spirits. The excise duty alcohol contained in beer and cider is approx. 2.5 times lower than that on alcohol in vodka.

Excise duty rates on alcoholic beverages in Poland

Category	Assessment base	Rate in PLN	Rate in EUR	Minimum EU rate (EUR)
Beer	Number of hectolitres and degrees Plato	7.79	1.84	0.748
Wine	Number of hectolitres	158.00	37.35	EUR 0
Fermented beverages	Number of hectolitres	97.00 (cider and perry)	22.93	EUR 0
		158.00 (other)	37.35	
Intermediate products	Number of hectolitres	318.00	75.16	EUR 45
Ethyl alcohol	Number of hectolitres of 100% ABV alcohol	5 704.00	1 348.21	EUR 1.000

The exchange rate adopted for conversion, valid as of 1 October 2013, was PLN 4.2308 to 1 EUR. The rate was published in the Official Journal of the European Union (C 286 of 02/10/2013) in keeping with Article 9 of Directive 92/84

Source: KPMG in Poland

Excise duty on alcohol contained in various kinds of alcoholic beverages in Poland

Type of alcohol (packaging size, alcohol per volume, retail price)	Excise duty rate (PLN)	Assessment base	Cost of excise duty added to the price of product in commercial packaging (PLN)	Cost of excise duty added to the price of 1 litre of ethyl alcohol 100% ABV (PLN)	Share of excise duty in price (%)
Vodka (0.5 l, 40% ABV, price: PLN 20)	5 704.00	1 hL 100% ABV	11.41	57.0	57%
Wine (0.7 l, 12% ABV, PLN 15)	158.00	1 hL of finished product	1.11	13.2	7%
Beer (0.5 l, 5% ABV [12.5 degrees Plato], PLN 3)	7.79	from 1 hL per each degree Plato of finished product	0.49	19.5	16%
Cider (0.33 l, 4.5% vol, PLN 4)	97.00	1 hL of finished product	0.32	21.5	8%

Source: KPMG in Poland

6.3 Excise taxation of spirits in Poland in the context of the EU and the neighbouring countries

In order to present the level of taxation in Poland in a broader context, we contrasted the rates of the excise duty on spirits in various EU countries, adding the mandatory VAT rate. The summary below compares only excise duty rates and VAT rates, without reference to consumers' purchasing power or the level of sales margins. For this reason, data from the table cannot be

viewed as an indicator of spirits prices in various EU countries. The comparison is provided only for informative purposes. For this reason we have included a conversion which shows the excise duty charged on a 0.5-litre bottle of an alcoholic beverage containing 40% alcohol by volume (ABV).



Excise duty on ethyl alcohol in the European Union

Country	Local currency	Base rates in compliance with Article 20 of Directive 92/83/EEC, i.e. EUR 1,000 (or EUR 550) per 1 hL of pure alcohol in a finished product		Cost of excise duty due in the price of 0.5 litre of vodka, 40% APV	VAT rate
		Excise duty rate per 1 hectolitre			
		Local currency	PLN	PLN	
Austria	EUR	1 200.00	5 016.00	10.03	20%
Belgium	EUR	2 118.96	8 857.25	17.71	21%
Bulgaria	BGN	1 100.00	2 352.35	4.70	20%
Croatia	HRK	5 300.00	2 900.16	5.80	25%
Cyprus	EUR	956.82	3 999.51	8.00	19%
Czech Republic	CZK	28 500.00	4 340.55	8.68	21%
Denmark	DKK	15 000.00	8 428.50	16.86	25%
Estonia	EUR	1 643.00	6 867.74	13.74	20%
Finland	EUR	4 555.00	19 039.90	38.08	24%
France	EUR	1 718.61	7 183.79	14.37	20%
Greece	EUR	2 450.00	10 241.00	20.48	23%
Spain	EUR	913.28	3 817.51	7.64	21%
Netherlands	EUR	1 686.00	7 047.48	14.09	21%
Ireland	EUR	4 257.00	17 794.26	35.59	23%
Lithuania	LTL	4 460.00	5 402.40	10.80	21%
Luxembourg	EUR	1 041.15	4 352.01	8.70	15%
Latvia	EUR	1 337.50	5 590.75	11.18	21%
Malta	EUR	1 350.00	5 643.00	11.29	18%
Germany	EUR	1 303.00	5 446.54	10.89	19%
Poland	PLN	5 704.00	5 704.00	11.41	23%
Portugal	EUR	1 251.72	5 232.19	10.46	23%
Romania	RON	4 738.00	4 498.26	9.00	24%
Slovakia	EUR	1 080.00	4 514.40	9.03	20%
Slovenia	EUR	1 320.00	5 517.60	11.04	22%
Sweden	SEK	50 642.00	23 361.15	46.72	25%
Hungary	HUF	333 385.00	4 540.04	9.08	27%
UK	GBP	2 822.00	15 033.64	30.07	25%
Italy	EUR	942.49	3 939.61	7.88	22%

Conversion into PLN was made at the exchange rates of 8 October 2014, published online by the National Bank of Poland at <http://www.nbp.pl>

Source: KPMG in Poland based on data from the European Commission contained in Excise Duty Tables available online at: http://ec.europa.eu/taxation_customs/resources/documents/taxation/excise_duties/alcoholic_beverages/rates/excise_duties-part_i_alcohol_en.pdf. As of 1 July 2014

A comparison of rates indicates that the burden of excise duty on spirits in Poland is considerable, even though, for instance, the same tax is nearly 4.5 times higher in Sweden. A very high excise duty is also applied by Ireland, the UK and Finland. The lowest excise duty has been introduced in Bulgaria: it is nearly twice as low as in Poland.

It is even more important to compare excise duty rates in Poland and the neighbouring countries. Since the assessment base in all countries is expressed in the same way (100% of ethyl alcohol volume contained in a finished product per a unit of volume), it is fairly easy to compare excise duty rates. Again, it should be pointed out that

the summary provided in this report does not compare retail prices on products, as this would necessitate, for instance, a comparison of consumers' purchasing power, which depends on factors such as sales margins, the assortment of available products and price segments.

One may expect that spirits are going to be more expensive in Germany than in Poland despite lower rates of excise duty and VAT in Germany whereas in countries located east of Poland such alcoholic beverages are much cheaper regardless of excise duty rates applied there. For this reason, the table below presents only the levels of taxation. The burden of excise duty on a 0.5-litre bottle of a product containing 40%

ABV is provided only for informative purposes.

The summary indicates that in comparison with its neighbours Poland has the highest excise duty on spirits, even higher than the level of taxation in Germany. This effect is amplified by the fact that Poland has the highest VAT rate in the region.

It might come as a surprise that excise duties on spirits in Russia and Belarus do not deviate significantly from those applied by EU countries. The situation is different for Ukraine, where the excise duty on spirits continues to be relatively low.

Excise duty on ethyl alcohol in Poland and neighbouring countries

Country	Local currency	Excise duty rate per 1 hectolitre of ethyl alcohol 100% ABV, contained in a finished product		Cost of excise duty due in the price of 0.5 litre of vodka, 40% ABV	VAT rate
		Local currency	PLN	PLN	
Belarus	RB	13 300 000.00	4 122.73	8.25	20%
Czech Republic	CZK	28 500.00	4 340.55	8.68	21%
Lithuania	LTL	4 460.00	5 402.40	10.80	21%
Germany	EUR	1 303.00	5 446.54	10.89	19%
Poland	PLN	5 704.00	5 704.00	11.41	23%
Russia	RUB	50 000.00	4 155.00	8.31	18%
Slovakia	EUR	1 080.00	4 514.40	9.03	20%
Ukraine	UAH	7 053.00	1 811.92	3.62	20%

Conversion into PLN was made at the exchange rates of 8 October 2014, published online by the National Bank of Poland at <http://www.nbp.pl>

Source: KPMG in Poland based on data from the European Commission contained in Excise Duty Tables available online at: http://ec.europa.eu/taxation_customs/resources/documents/taxation/excise_duties/alcoholic_beverages/rates/excise_duties-part_i_alcohol_en.pdf (for EU member states, as of 1 July 2014) and data obtained from the Trade Promotion and Investment Departments at the embassies in Moscow, Minsk and Kiev (respectively for Russia, Belarus and Ukraine, legal status as of 8 October 2014).

6.4 Budget revenues from excise duty on alcoholic beverages

Excise duty is the second largest source of tax-related revenues to the state budget in Poland. However, it should be noted that income taxes (CIT and PIT) are partially the revenues of local authorities, which is why they are not fully covered in the report on the performance of central budget. In 2013, government revenues from excise duty represented slightly over a quarter of total tax revenues.

The analysis given below refers to the 2013 budget performance and is based on official data. However, no official report is available yet regarding a similar coverage for a part of 2014.

In 2013, budget revenues from excise duty on alcoholic beverages represented approx. 18% of total excise duty revenues. Excise duty on motor fuels and tobacco products are the two largest sources of revenues whereas excise duty on alcoholic beverages comes third in this ranking.

A comparison of revenues earned from various types of alcoholic beverages indicates that revenues from spirits have risen significantly whereas

revenues from beer and wine have declined markedly. In the case of spirits, the reason lied in the considerable rise in excise duty (from PLN 4,960 to PLN 5,704 per 1 hL of ethyl alcohol 100% ABV contained in a finished product), introduced on 1 January 2014. When preparing for this tax rise, manufacturers and importers placed greater volumes of those products on the market towards the end of the previous year, as those products were still taxed at a lower rate. The data from the Central Statistical Office of Poland (GUS) show that 2013 supplies to the spirits market rose by 15.2% versus 2012, which is correlated with the 8.3% increase in budget revenues.

Tax revenues to the state budget in Poland

Item	Revenues in 2013 (PLN '000)	Revenues in 2013 / Revenues in 2012 (%)
VAT (tax on goods and services)	113,411,541	94,5
Excise duty, incl.:	60,653,116	100,3
Motor fuels	26,021,900	99,6
Lubricating oils	197,411	128
Heating fuels	261,554	96,3
LPG gas	1,013,834	100,8
Tobacco products	18,205,573	98
Spirits	7,158,814	108,3
Beer	3,504,380	97,9
Wine, fermented spirits and intermediate products	372,695	95,1
Passenger cars	1,413,323	108,6
Electricity	2,421,596	103,1
Coal	82,162	100,4
Dried tobacco	215	-
Gas products	4,177	-
Other	-4,519	-
Tax on gambling	1,303,910	90,4
Corporate income tax	23,075,275	91,8
Personal income tax	41,290,531	103,7
Tonnage tax	7	99,8
Tax on extraction of certain minerals	1,916,304	134,3
Taxes, other	239	88,6
Total	241,650,923	97,3

Source: KPMG in Poland based on the report on the performance of State Budget for the period from 1 January to 31 December 2013, adopted by the Council of Ministers in its resolution of 27 May 2014



7

Legal framework for alcoholic beverages market

7.1 Essential legal framework

In inter-war Poland, the production and trade in spirits was centrally controlled and co-ordinated by the State Alcohol Monopoly.

In 1949, the Central Board of the Alcohol Industry was established to replace that institution, and was then transformed into a state-owned alcohol enterprise called 'Polmos'. In the course of decades, and until the end of centrally planned economy, the manufacturing and trade of spirits was controlled by the government monopoly.

At present, in keeping with the constitutional principle of freedom and equality of business endeavours, the business activity consisting in manufacturing and trade of alcoholic beverages has been demonopolised, which means that any entity that meets the pre-defined criteria may engage in this business.

However, when we look at the existing regulatory framework, it is easy to notice that the business of alcoholic beverages is heavily regulated, with a number of specific legally defined conditions to be met. Moreover, entrepreneurs must obtain an entry in a relevant register

as well as administrative permits from various authorities at the central and local level. It should be noted that in the context of other regulated types of businesses the degree of regulation in the sector of alcohol production and trade is particularly high.

The business activity on the market of alcoholic beverages and, in particular, the production of such beverages, is also regulated by the EU law.

Anyone who wants to engage in the business of production or bottling of alcoholic beverages must obtain administrative permits. On the other hand, production of alcoholic beverages using home methods, and not intended for sale is allowed in principle and no permits are required. One exception is the production of spirits directly through distillation after alcoholic fermentation where a permit is required each time.

Wholesaling and retailing of alcoholic beverages may be performed only under relevant permits from central or local authorities.

Advertising and promotion of alcoholic beverages is prohibited in principle. The only exception is beer, which may be advertised after certain statutory requirements have been fulfilled.

7.2 Controversies regarding the Polish legal framework

The essential legal act which regulates the distribution and advertising of alcoholic beverages in Poland is the Act of 26 October 1982 on Education in Sobriety and Counteracting Alcoholism ('the Act'), which contains controversial provisions. In particular, some of its provisions are blamed for discriminating against entrepreneurs in the wine and spirits industry versus manufacturers and distributors of beer, as well as for incompatibility with the realities of modern economy. Below presented are selected issues which stir up most controversies.

Diversified situation of entrepreneurs in terms of advertising and promotion

After the Act came into force, advertising for any alcoholic beverages was fully prohibited. The Act was amended in 2001, allowing the advertising and promotion of beer, under many

restrictions. Permissibility of beer advertising was introduced to achieve one of the main goals defined in the Act, i.e. a change in the structure of alcohol consumption in Poland.

One cannot help but notice that the aforementioned amendment led to a differentiation of the legal situation of entrepreneurs operating in the beer segment versus those dealing in wines and spirits. From the perspective of any business, the possibility to advertise and promote its products (even to a limited extent) represents a considerable advantage and a privilege versus entrepreneurs who are fully deprived of the possibility to advertise and promote their products.

One may doubt whether the privilege granted to beer enterprises is compliant with the constitutional principle of equality before the law. Departures from this rule are allowed but only on condition that they are justified by important public interest. A question arises whether in the case of entrepreneurs operating in the alcoholic beverages industry the public interest which speaks in favour of departing from the aforementioned rule

is important enough and whether the differentiation introduced by the law has indeed helped to change the structure of alcohol consumption in Poland and if so, one might ask if it is still justified to maintain this differentiation once the intended result has already been achieved.

Nevertheless, if we assume that the amendment which permitted beer advertising did, indeed, aim at changing the structure of alcohol consumption in Poland by reducing the consumption of spirits in favour of lower-proof beverages, we might conclude that the legislators were somewhat inconsistent as they did not lift the ban on advertising other low-proof alcoholic beverages such as cider, which contains between 1.2% and 8.5% ABV (usually 4.5% in the case of cider manufactured in Poland). Work is in progress to draft an amendment to the Act, providing for a possibility to advertise cider under the same rules as those applicable to beer. However, even if cider is excluded from the ban on advertising in future, advertising of other alcoholic beverages with alcohol content similar to that of beer (e.g. low-proof fruit wine) will continue to



be prohibited. It seems difficult to find rational arguments supporting such a differentiation if the legislators' goal is to change the structure of alcohol consumption in Poland.

Distributors of alcoholic beverages other than beer point out that the total ban on advertising and promotion heavily limits their opportunities to communicate with consumers. The main tools used by those entrepreneurs to communicate with consumers include industry press, advertisements at points of sale (shops, bars, clubs etc.), non-public presentations and training events as well as social media.

In particular, distributors of spirits point out that as they have no opportunities to communicate with consumers properly, the situation may, paradoxically, bring results which are opposite to those intended by the legislators. In a situation where the spirits industry is not allowed to communicate brand values and to promote products on the basis of their quality, it is doomed to compete on price, and that reinforces consumers' inclinations to select spirits mostly on basis. Therefore, distributors who want

to increase/retain their market share are forced to reduce the price of alcoholic beverages, which leads to further increase in affordability.

Moreover, manufacturers and distributors of wine feel they have been treated particularly unfairly by the legislators since, as they point out, the total ban on advertising of wine product puts them on equal footing with spirits companies, even though wine (esp. grape wine) is considered to be the least harmful type of alcoholic beverages, both socially and in terms of health.

Doubts concerning permissibility of marketing activities in social media

In recent years, social media have become one of the most important channels for entrepreneurs from the alcoholic beverages industry to communicate with consumers. Social media are used to run various marketing activities for products and brands. This platform is particularly important for manufacturers and distributors of wine products and spirits falling under

the statutory ban on advertising and promotion of alcoholic beverages.

The alcoholic beverages industry expresses a position that marketing activities in social media do not violate the ban on advertising alcoholic beverages. They argue that in accordance with the definition provided in the Act, the ban on advertising and promotion applies to public activities (targeted at unspecified audiences) whereas marketing activities in social media are not public. They are targeted only at a limited group of registered users of the medium concerned.

An entirely opposite view is represented by PARPA, the State Agency for the Prevention of Alcohol-Related Problems. In its view, any forms of advertising and promotion via social media, such as Facebook or Nk.pl, represent prohibited ways of circumventing the ban on advertising of alcoholic beverages since those media are public in their very nature.

Therefore, it seems highly desirable to amend the Act in a way that would unambiguously disperse those doubts.



Doubts concerning permissibility of distribution of alcoholic beverages via the Internet

The Act does not regulate (at least not directly) the permissibility of selling alcoholic beverages via the Internet. As a result, disputes about permissibility of this form of selling have been going on for years.

Three stances may be identified in this discussion:

- Sale of alcoholic beverages via the Internet is always absolutely prohibited (which stems from the fact that the legislators did not provide for a separate category of permits for the sale of alcoholic beverages via the Internet) – this stance is held by PARPA and is also represented in administrative judicial decisions;

- Sale of alcoholic beverages via the Internet is permitted, provided that a permit for a specific off-line point of sale has been obtained – this view seems to be currently strongly represented in the administrative law doctrine;
- Sale of alcoholic beverages via the Internet is permitted also without a permit for an off-line point of sale since the Act does not regulate this form of selling at all – this stance is rather occasional.

In the opinion of the authors of this Report, it is impossible to determine which stance is correct. Undoubtedly, an urgent amendment to the Act is desirable in order to put an end to legal disputes concerning the aforementioned matter.

Absence of legal regulations for alcohol products other than beverages

Limitations arising under the Act apply only to alcoholic beverages. This object of statutory regulation seems obsolete and creates an important legal gap.

The alcoholic beverages industry is constantly developing, and it already has the capabilities of manufacturing edible products containing alcohol (e.g. jellies as well as the so-called 'powder alcohol' and its derivatives). Therefore, wide availability of edible alcohol products is only a matter of time. One cannot but note that legislators fall behind those changes in technology and consumption. For the time being, edible alcoholic products entirely escape the universe regulated by the Act.



7.3 Manufacturing

Main legal acts

- Act of 2 March 2001 on the production of ethyl alcohol and manufacturing of tobacco products (Dz.U. – Official Journal No. 31 item 353 of 2001, as amended);
- Act of 18 October 2006 on the production of spirits and registration and protection of geographic marking of spirits (Dz.U. – Official Journal item 144 of 2013, consolidated text);
- Act of 12 May 2011 on the production and bottling of wine products, trading in those products and the organisation of wine market (Dz.U. – Official Journal No. 120 item 690 of 2011, as amended);
- Act of 6 December 2008 on excise duty (Dz.U. – Official Journal, item 752 of 2014, consolidated text);
- Regulation (EC) No. 110/2008 of the European Parliament and of the Council of 15 January 2008 on the definition, description, presentation, labelling and the protection of spirit drinks and repealing Council Regulation (EEC) No. 1576/89 (OJ EU L 39/16 of 2008, as amended);
- Council Regulation (EEC) No. 1601/91 of 10 June 1991 laying down general rules on the definition, description and presentation of aromatized wines, aromatized wine- based drinks and aromatized wine-product cocktails (OJ EU L 149/1 of 1991, as amended)
- Commission Regulation (EC) No. 555/2008 laying down detailed rules for implementing Council Regulation (EC) No. 479/2008 on the common organisation of the market in wine as regards support programmes, trade with third countries, production potential and on controls in the wine sector (OJ EU L 170/1 of 2008, as amended);
- Commission Regulation (EC) No. 436/2009 of 26 May 2009 laying down detailed rules for the application of Council Regulation (EC) No. 479/2008 as regards the vineyard register, compulsory declarations and the gathering of information to monitor the wine market, the documents accompanying consignments of wine products and the wine sector registers to be kept (OJ EU L 128/15 of 2009, as amended);
- Council Regulation (EC) No. 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products (Single CMO Regulation) (OJ EU L 299/1 of 2007, as amended);
- Commission regulation (EC) No. 607/2009 of 14 July 2009 laying down certain detailed rules for the implementation of Council Regulation (EC) No. 479/2008 as regards protected designations of origin and geographical indications, traditional terms, labelling and presentation of certain wine sector products (OJ EU L 193/60 of 2009, as amended).

Definitions

Ethyl alcohol – in the meaning of the act on the production of ethyl alcohol and manufacturing of tobacco products, ethyl alcohol is an alcoholic liquid obtained through distillation after alcoholic fermentation of agricultural products or an alcoholic liquid obtained synthetically;

Beer – in the meaning of the act on excise duty, beer comprises any products classified under CN 2203 00 (beer obtained from malt) and any products containing a blend of beer with soft drinks, classified under CN 2206 00 (other fermented beverages) if the real alcoholic strength in those products exceeds 0.5% of their volume;

Wine products – alcoholic beverages defined specifically in Article 3 of the Act of 12 May 2011 on the production and bottling of wine products, trading in those products and the organisation of wine market, including, primarily, fermented alcoholic beverages; the list includes, among others, mead, fruit wine, cider and perry;

Spirits – alcoholic beverages containing minimum 15% alcohol by volume and meeting other specific criteria defined in Article 2 of Regulation (EC) No. 110/2008 of the European Parliament and of the Council of 15 January 2008;

Polish Vodka – (i) vodka which contains no other additives except

water, or (ii) flavoured vodka with an imparted dominant flavour other than the flavour of ingredients used to produce it, containing natural flavourings and, in particular cases, colorants, with a maximum sugar level, expressed as inverted sugar, not exceeding 100 grams per one litre of pure alcohol, such product being obtained from ethyl alcohol of agricultural origin derived from rye, wheat, barley, oats, triticale or potatoes, grown in the territory of the Republic of Poland, where all stages of production take place in the territory of the Republic of Poland and where the product can be matured in order to develop special organoleptic properties.

Manufacturing

General rules	<p>In accordance with the Act on the production of ethyl alcohol and manufacturing of tobacco products, business activity consisting in the manufacturing, cleaning, contaminating or dehydration of ethyl alcohol is a regulated business and must be registered in the register of entrepreneurs engaging in the production and processing of ethyl alcohol, such register being maintained by the minister who is competent for agricultural markets.</p> <p>If specific legislation does not provide otherwise, manufacturing of ethyl alcohol for purposes other than business activity ('for own use') is, in principle, allowed.</p>
Tax issues	<p>Alcoholic beverages are subject to excise duty, which means that their production may take place, in principle, only in a tax warehouse. A permit must be obtained for running a tax warehouse; such permits are issued by the head of the customs office, which means that the production, warehousing and transfer of goods are inspected by tax authorities.</p> <p>In addition, alcoholic beverages (except for beer) must be mandatorily marked with excise marks (excise bands).</p> <p>Simplified rules apply in the following cases of production:</p> <ul style="list-style-type: none"> • under 1,000 hectolitres within a calendar year in the case of wine obtained from grapes harvested from one's own crops, • beer, wine and fermented alcoholic beverages manufactured with home methods by natural persons for their own use and not intended for sale, • under 10 hectolitres within a calendar year in the case of ethyl alcohol – if such production is conducted by distilleries which are legally and economically independent of any other distilleries and do not operate under a license obtained from another entity.
Beer	<p>The manufacturing of beer (in the meaning of the act on excise duty) consists in manufacturing, processing and bottling of beer.</p> <p>Beer production which is not performed as a business activity (natural persons making beer at home for their own use, not for sale) is allowed and is not subject to any requirements (e.g. registration, record-keeping) and is exempted from excise duty.</p>

Manufacturing

<p>Wine products</p>	<p>Business activity which consists in manufacturing or bottling of wine products is a regulated activity; it must be registered in the register of entrepreneurs engaging in manufacturing or bottling of wine products, such register being maintained by the minister competent for agricultural markets. The requirement to obtain an entry in such a register does not apply to manufacturers who exclusively produce and bottle wine obtained from grapes from their own crops.</p> <p>The production of wine from grapes harvested from vines located in the territory of the Republic of Poland, intended for the market, must also be entered into the register of manufacturers and entrepreneurs who make wine from grapes harvested from vines located in the territory of the Republic of Poland, such register being maintained by the President of the Agricultural Market Agency.</p> <p>Economic agents which market wine produced in accordance with the relevant product specification may endeavour to obtain protection for names of origin and geographical indication.</p> <p>The act on the production and bottling of wine products, trading in those products and the organisation of wine market, and its provisions related to the mandatory registration in a register maintained by the minister competent for agricultural markets, does not apply to wine products made with home methods for one's own use and not intended for sale.</p> <p>The production of wine which is not done as a business activity (natural persons making wine for their own use, not intended for sale) is allowed, is not subject to any conditions (e.g. registration, record-keeping) and is exempted from excise duty.</p>
<p>Spirits</p>	<p>Business activity consisting in the production or bottling of spirits is a regulated activity and must be registered in the register of businesses engaging in the production or bottling of spirits. Such a register for manufacturing and bottling of spirits is maintained by the minister competent for agricultural markets.</p> <p>The minister who is competent for agricultural markets maintains a national list of protected geographical indications of spirits. This list may include (upon request) geographical indication of spirits (a name referring to the name of location, town or village, region in the territory of the Republic of Poland or – in exceptional cases – to the entire territory of the Republic of Poland, and such a name identifies spirits as a product originating from that particular location, town or village, region or territory). Geographical indication of spirits entered into that list is protected within the territory of the Republic of Poland. Upon a manufacturer's request, the minister reports such a listed geographical indication of spirits to the European Commission in order for it to be protected within the European Union.</p> <p>The production of spirits with home methods, for one's own use and not for sale is allowed and is not subject to licensing, provided that this process does not include distillation after alcoholic fermentation. In practice, this means that production of spirits from other alcoholic beverages that were made through distillation (e.g. making tinctures from other spirits) is not prohibited. On the other hand, it is prohibited to make one's own spirits directly through distillation.</p>



7.4 Distribution

Main legal acts

Issues related to the distribution of alcoholic beverages are regulated by the Act of 26 October 1982 on education in sobriety and counteracting alcoholism (Dz.U. – Official Journal, item 1356 of 2012, consolidated text, as amended).

Definitions

Alcoholic beverage – a product intended for consumption, containing ethyl alcohol or agricultural origin in concentration exceeding 0.5% of alcohol by volume.

In accordance with the classification adopted in the aforementioned Act, which regulates, in particular, issues related to distribution, advertising and promotion of alcoholic beverages,

alcoholic beverages are subdivided into the following categories:

- alcoholic beverages containing up to 4.5% of alcohol, and beer;
- alcoholic beverages containing from 4.5% to 18% of alcohol, except beer;
- alcoholic beverages containing above 18% of alcohol

Wholesaling in alcoholic beverages

– the purchase of alcoholic beverages for further resale to entrepreneurs who hold relevant permits;

An off-license store selling alcoholic beverages – an outlet where the annual value of sales obtained from selling alcoholic beverages represents at least 70% of the total sales of merchandise at this outlet.

Distribution

	Wholesale trade	Retail sales
General rules	<p>Wholesaling in alcoholic beverages in Poland may be conducted only under a licence.</p> <p>A manufacturer of alcoholic beverages is required to obtain a wholesaling licence if it sells its products to entrepreneurs who hold a retailing licence.</p> <p>Licences are issued separately for wholesaling in various types of alcoholic beverages.</p> <p>A licence is issued against a mandatory fee.</p> <p>In order to obtain a licence, the following requirements must be met, in particular:</p> <ul style="list-style-type: none"> • the licensing authority must receive information on the volume of sales of alcoholic beverages for the preceding year by 31 January, • alcoholic beverages mentioned in the licence must only be sold to entrepreneurs who hold a wholesaling licence in those beverages or a retailing licence for alcoholic beverages, • supplies of alcoholic beverages mentioned in the licence may be taken only from manufacturers and entrepreneurs who hold a wholesaling licence for those beverages. 	<p>Alcoholic beverages intended for consumption either at the place of sale or outside it may only be sold under a licence issued by the vojt (mayor) who is geographically competent for the location of the point of sale.</p> <p>Licences are issued for specific periods, not less than four years; in the case of sale of alcoholic beverages intended for consumption outside the place of sale the licence is issued for not less than two years.</p> <p>Sales licences are issued separately for specific categories of alcoholic beverages.</p> <p>Licences are issued after obtaining a positive opinion from the municipal commission dealing with alcohol-related problems; such a decision should state that the location of the point of sale complies with the resolutions adopted by that municipal council regarding the number and locations of points of sale within the municipality concerned.</p> <p>Whoever uses a licence to sell alcoholic beverages must pay a fee to the municipality.</p> <p>In particular, such sales may be conducted if alcoholic beverages are obtained from manufacturers and entrepreneurs who hold relevant wholesaling licences for alcoholic beverages.</p>

Distribution

	Wholesale trade	Retail sales
General rules		<p>In qualified cases defined in the act on education in sobriety and counteracting alcoholism, a license may be withdrawn. An entrepreneur whose license was withdrawn may request that the license is re-issued but he may do so not earlier than three years after the decision upon which the license was withdrawn.</p> <p>Entrepreneurs whose business consists in organising parties and receptions, may receive licenses for the sale of alcoholic beverages for a period of up to two years.</p> <p>Regardless of the above, entrepreneurs who hold licenses for the sale of alcoholic beverages as well as units of Volunteer Fire Service may receive one-off licenses in a simplified procedure for the sale of alcoholic beverages for a period of up to two days.</p> <p>It is prohibited to sell and serve alcoholic beverages to individuals aged under 18 years.</p> <p>The matter of selling alcoholic beverages via the Internet is underdefined in the law and gives rise to controversies in interpretation. It seems that the prevailing position in judicial decisions is that such form of sale is prohibited (e.g. the Supreme Administrative Court in its judgment of 14 April 2011, II GSK 431/10). At the same time, a different view is also represented in the doctrine, whereby the sale of alcoholic beverages via the Internet is allowed provided that the vendor holds a license for an off-line point of sale. There is a considerable degree of agreement that the sale of alcohol via the Internet only (without holding a license for off-line trade) is prohibited.</p>
Alcoholic beverages containing up to 4.5% of alcohol and beer	<p>Licenses are issued by the Marshal of the voivodship.</p> <p>Licenses are issued for a specific period, not longer than two years.</p>	<p>The fee for a sales license is PLN 525, and if the annual value of sales of this kind of alcoholic beverage at a point of sale exceeded PLN 37,500 in the preceding year; the fee amounts to 1.4% of the total value of sales of those beverages in the preceding year.</p>
Alcoholic beverages containing from 4.5% to 18% of alcohol, except beer	<p>The fee for a license is PLN 4,000 for entrepreneurs applying for such a license for the first time and for those who did not exceed PLN 1,000,000 in their wholesaling of alcoholic beverages in the year preceding the expiry of the license.</p> <p>In the case of entrepreneurs whose sales value in the year preceding the expiry of the license exceeded PLN 1,000,000 the fee for a license amounts to 0.4% of their previous year's sales value.</p>	<p>Retail sales of alcoholic beverages intended for consumption away from the point of sale are conducted in points such as:</p> <ul style="list-style-type: none"> • off-license stores selling alcoholic beverages, • separate stands in self-serve trade outlets with the shop floor exceeding 200 sq.m., • other self-serve outlets and other trade outlets where the seller conducts direct sale of alcoholic beverages. <p>Manufacturers who only produce and bottle wine obtained from grapes harvested from their own crops may engage in retail sale of grape wines from their own crops at a point of sale which is located in the place where the wine was produced from grapes harvested from their own crops.</p> <p>The fee for a sales license is PLN 525 and if the annual value of sales of this kind of alcoholic beverage at the point of sale exceeded PLN 37,500 in the preceding year; the fee amounts to 1.4% of the total sales value of those beverages in the preceding year.</p>

Distribution

	Wholesale trade	Retail sales
Napoje alkoholowe o zawartości powyżej 18% alkoholu	<p>Licenses are issued by the minister competent for the economy.</p> <p>Licenses are issued for a predefined period of time, no longer than one year.</p> <p>A threshold for licenses is defined in the amount of min. 500,000 litres of 100% alcohol per annum. The assigned limit may be increased upon the entrepreneur's request, such request being filed at least 30 days after the threshold defined in the license was reached.</p> <p>With regard to entrepreneurs who offer supplies to ships, trains and aircraft, the maximum threshold is defined as 2,000 litres of 100% alcohol per annum.</p> <p>The fee for issuing a license is PLN 45,000 per 500,000 litres of 100% alcohol, and the fee for entrepreneurs who offer supplies to ships, trains and aircraft is defined in accordance with the declared sales.</p>	<p>Retail sales of alcoholic beverages intended for consumption away from the place of sale are conducted at points of sale such as:</p> <ul style="list-style-type: none"> • off-license stores selling alcoholic beverages, • separate stands in self-serve trade outlets with the shop floor exceeding 200 sq.m., • other self-serve outlets and other trade outlets where the seller conducts direct sale of alcoholic beverages. <p>The fee for a sales license is PLN 2,100 and if the annual value of sales of this kind of alcoholic beverage at the point of sale exceeded PLN 77,000 in the preceding year, the fee amounts to 2.7% of the total sales value of those beverages in the preceding year.</p>

7.5 Advertising and promotion

Main legal acts

- The advertising and promotion of alcoholic beverages is regulated in the Act of 26 October 1982 on Education in Sobriety and Counteracting Alcoholism (Dz.U. – Official Journal, item 1356 of 2012, as amended);
- Directive 2010/13/EU of the European Parliament and of the Council of 10 March 2010 on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the provision of audiovisual media services (Audiovisual Media Services Directive) (OJ EU L 95/1 of 2010, as amended)

Definitions

The definition of alcoholic beverages and subdivision into categories is the same as in the case of distribution.

Promotion of alcoholic beverages

– public tasting of alcoholic beverages, handing out items related to alcoholic beverages, organising sales of alcoholic beverages with bonuses, as well as other forms that encourage the public to purchase alcoholic beverages;

Advertising of alcoholic beverages

– public dissemination of trademarks of alcoholic beverages or related graphic symbols as well as names and graphic symbols of entrepreneurs who produce alcoholic beverages, not different from names and graphic symbols of alcoholic beverages, intended to popularise trademarks of alcoholic beverages; advertising does not comprise information used for commercial purposes between entrepreneurs who engage in the production, wholesaling and trade in alcoholic beverages.

Advertising and promotion

General rules

Advertising and promotion of alcoholic beverages is prohibited in principle. One exception is beer, which can be promoted and advertised under certain circumstances.

The ban on advertising and promotion extends also onto promotional and advertising publications offered to retail customers by manufacturers, distributors or traders of alcoholic beverages.

It is prohibited to advertise and promote products and services with a name, trademark, graphic pattern or packaging that relies on a similarity to, or is identical with, a marking of an alcoholic beverage or another symbol which objectively refers to an alcoholic beverage.

Moreover, it is prohibited to advertise and promote entrepreneurs and other entities which, in their advertising image, use a name, trademark, graphic shape or packaging related to an alcoholic beverage, its manufacturer or distributor.

The ban on advertising and promotion of alcoholic beverages applies to all entities involved in advertising as either the principal or the contractor, regardless of manner and format of presentation.

The ban on advertising and promotion of alcoholic beverages does not apply to advertising and promotion conducted within the premises of a wholesaling business, on separate stands or points exclusively engaging in the sale of alcoholic beverages and within outlets selling alcoholic beverages intended for consumption at the point of sale.

Businesses which provide services consisting in advertising alcoholic beverages are required to pay a fee amounting to 10% of the taxable base of VAT earned from that service. The fee is payable to separate account established for this purpose by the minister competent for physical culture. Proceeds from the aforementioned fees go to the Fund of Sports Classes for Pupils, managed by the minister competent for physical culture.

Advertising, promotion or information about sponsorship of a mass event against the statutory bans are subject to a penal sanction in the form of a fine, ranging from PLN 10,000 to 500,000.

It is important to note that the ban on advertising and promotion laid down in the Act on education in sobriety and counteracting alcoholism applies to alcoholic beverages whereas it does not apply to other food products which may contain alcohol (e.g. confectionery bars or products made with gelatine).

The essential rules concerning TV advertising and teleshopping for alcoholic beverages are unified for EU member states in Directive 2010/13/EU of the European Parliament and of the Council of 10 March 2010.

Television advertising and teleshopping for alcoholic beverages must comply with the following criteria:

- a. it may not be aimed specifically at minors or, in particular, depict minors consuming these beverages,
- b. it shall not link the consumption of alcohol to enhanced physical performance or to driving,
- c. it shall not create the impression that the consumption of alcohol contributes towards social or sexual success,
- d. it shall not claim that alcohol has therapeutic qualities or that it is a stimulant, a sedative or a means of resolving personal conflicts,
- e. it shall not encourage immoderate consumption of alcohol or present abstinence or moderation in a negative light,
- f. it shall not place emphasis on high alcoholic content as being a positive quality of the beverages.

Advertising and promotion

Alcoholic beverages containing up to 4.5% of alcohol and beer	<p>Advertising and promotion is prohibited, except for beer.</p> <p>Advertising and promotion of beer is allowed under the following conditions:</p> <ul style="list-style-type: none"> • it may not be directed at minors, • it may not depict minors, • it may not link alcohol consumption to enhanced physical performance fitness to driving, • it may not claim that alcohol has therapeutic qualities or that it is a stimulant, a sedative or a means of resolving personal conflicts, • it may not encourage immoderate consumption of alcohol, • it may not present abstinence or moderation in a negative light, • it may not place emphasis on high alcoholic content as being a positive quality of the beverages, • it may not evoke connotations with sexual appeal, relaxation or rest, studying or work, professional success or success in life. <p>Advertising and promotion of beer may not be conducted:</p> <ul style="list-style-type: none"> • on TV, radio, cinema and theatre between 6:00 am and 8:00 pm, except advertising conducted by an organiser of a professional or competitive sports event in the course of that event, • on video tapes and other media, • in youth press and children's press, • on covers of daily papers and magazines, • on advertising posts and boards and other permanent and mobile spaces used for advertising, unless 20% of that surface contains visible and legible inscriptions with information about the harm caused by alcohol consumption or about the ban on selling alcohol to minors, • with participation of minors. <p>Work is currently in progress to amend the Act on education in sobriety and counteracting alcoholism, to enable the advertising and promotion of cider under the same rules as those applicable to beer.</p>
Alcoholic beverages containing from 4.5% to 18% of alcohol, except beer	<p>Advertising and promotion is prohibited except for beer.</p> <p>It is also prohibited to provide information on the sponsorship of sports events, music concerts and other mass events by manufacturers and distributors of beverages whose core business consists in manufacturing or sales of alcoholic beverages containing from 8% to 18% of alcohol, in any way other than when the name of the manufacturer or distributor and their trademark are placed inside daily papers and magazines, on invitations, tickets, posters or information boards related to a specific event. Information on sponsorship may be disseminated on the radio and television on condition that it will be limited to the name of the manufacturer or distributor of beverages containing up to 18% of alcohol or the trademark of such manufacturer or distributor, and provided that such information is not presented on TV by a natural person or using an image of a human being. Moreover, it is prohibited to provide information on other sponsorship activities undertaken by manufacturers and distributors of alcoholic beverages whose core business consists in the production or sale of alcoholic beverages containing from 8% to 18% of alcohol.</p>
Alcoholic beverages containing over 18% of alcohol	<p>Advertising and promotion is prohibited.</p> <p>It is prohibited to provide information on sponsorship activities undertaken by manufacturers and distributors of alcoholic beverages containing 18% of alcohol.</p>

“Two hundred years ago Napoleon Bonaparte told his soldiers: ‘If you have to drink, drink like Poles do.’ Those words expressed his recognition for the ability to drink in moderation. At present, the so-called ‘Polish-style drinking’ has a different meaning. However, the negative image of an average Pole who drinks too much vodka is a false stereotype, dating back to the communist times. For a few decades, the alcohol menu was dominated by pure vodka. It was one of a few available sorts of entertainment, even though vodka was rationed against coupons in 1980s. As a token of civil resistance, Poles around the country engaged in ‘home production’ for their own use. Illegal trade also thrived in those times.

This was the social and historical background of the act on education in sobriety and counteracting alcoholism, drafted during the years of martial law in Poland. This act defines the rules operation of the alcohol market in Poland until today. The main aim of the act is to reduce the consumption of alcohol and change the structure of consumption, aiming for a greater share of low-proof alcoholic beverages. In subsequent years, unequal treatment of spirits in the law aggravated, and was reflected in such spheres as excise duty rates, the right to advertise and publish information on sponsorship, or in sales licenses.

Even though alcohol in Poland continues to be likened with vodka, beer has been the market leader since 1998. In 2013, a statistical citizen of our country drank 6 litres of wine, 8 litres of spirits and 98 litres of beer. However, it is spirits that bear the heaviest tax burden. Subsequent rises in excise duty on spirits in 2005, 2009 and 2014 have led to a situation where the excise duty in Poland is higher than that in all neighbouring countries, including Germany. Considering the high price sensitivity of Poles and competition from manufacturers of illegal alcohol, the spirits industry is the least profitable part of the food sector. In 2008–2012 a total of 8 Polmos enterprises went bankrupt and 10 private companies abandoned the production of spirits. There are only 27 micro companies in the market whereas Germany has approx. 20,000 of such manufacturers. In comparison with 1985, we are currently export slightly over a half of the volume of vodka but we have gradually improved our performance on global markets. The most serious obstacle for entrepreneurs in the spirits industry lies in the complicated tax procedures and the high excise duty, which accounts for more than a half of the product price. Restricted communication opportunities do not give entrepreneurs equal chances of competing on the market. At the same time, Poland continues to have a considerable grey area in the economy which, according to various estimates, equals 10–15% of the legal spirits market.

However, there is a light in the tunnel. The successful example of Scottish whisky shows that investments in a national alcohol type can be successful and may bring benefits not only for entrepreneurs but for the economy at large. In July 2014 member companies of the Association of Employers Polish Spirits Industry sent a letter to Prime Minister Donald Tusk, pointing out to the unequal treatment of spirits by the government, lack of support for the industry and unfair competition from the gray market. The industry will continue to grow only when backed up with rational public policies. We put special hopes on the reduction of excessive tax-related bureaucracy. The Ministry of Finance has already commenced work on deregulation. The draft amending the act on excise duty is going to be sent to the parliament soon. We do hope that the legislative process will be efficient and that in subsequent years the Ministry of Finance will stay on the path towards changes, in order to abolish unnecessary procedural barriers.

We believe that we have numerous advantages: many centuries of tradition, anchoring in the local culture, high quality of products, historical brands and, last but not least, hosts of responsible consumers who seek interesting flavours and product sorts on the market

Leszek Wiwala

President, Association of Employers Polish Spirits Industry





8

Research methodology

8.1 Desk research

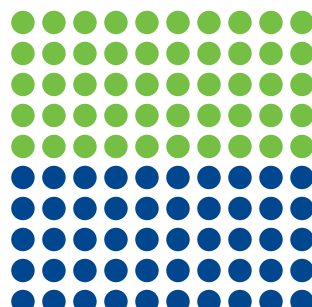
The report is based on data obtained from companies, institutions studying the market of alcoholic beverages (mostly Euromonitor International) as well as statistical institutions (mostly the Central Statistical Office of Poland and Eurostat). Unless specified otherwise, the data quoted here describe retail sales per category, covering off-trade sales (in retail stores) as well as the on-trade segment (i.e. HoReCa and others). Classification of categories which are part of the market of alcoholic beverages was generally adopted after Euromonitor International, with partial adjustments to account for specific characteristics and realities of the Polish market.

8.2 A survey of Polish consumers of alcoholic beverages

The consumer survey was conducted by Norstat, a research company, on a representative sample of 1,000 adult Poles. The respondents were asked about their preferences and habits related to consumption and purchase of alcoholic beverages. The study was conducted using the CAWI methodology (Computer Assisted Web Interview) in Q3 of 2014.

Surveyed consumers of alcoholic beverages in Poland

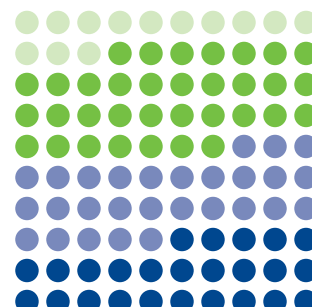
Gender



50%
Female

50%
Male

Age



13%
18-24

34%
25-39

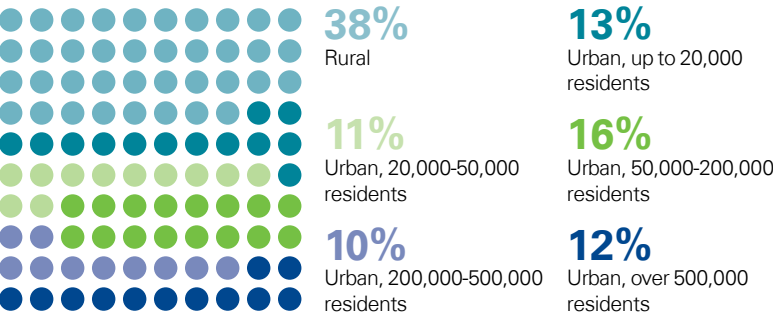
28%
40-54

25%
55+

Source: KPMG in Poland

Surveyed consumers of alcoholic beverages in Poland

Type of domicile



Source: KPMG in Poland

8.3 A survey of companies operating on the market of alcoholic beverages in Poland

The report also draws on data collected from a survey conducted with representatives of enterprises from the sector holding top positions in their companies: CEOs, board members, directors or owners. The survey covered major corporations as well as small and medium-sized manufacturers and distributors of various categories of alcoholic beverages. The survey, conducted in Q3 of 2014, covered a total of 24 companies. The respondents answered questions only for the categories they represented or the ones they analysed on an ongoing basis as competitors for their products. More than a half of the respondents also took part in in-depth interviews which allowed the authors to gain more insights and enhance the research findings. Interviews were also conducted with market analysts and observers.

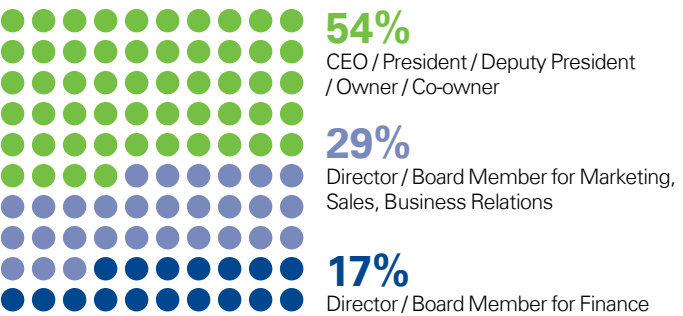
Surveyed companies from The alcoholic beverages market in Poland

Shares held by surveyed companies in respective market segments



Source: KPMG in Poland

Respondents' positions



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