

# 'Squeezed middle'

## Mid-scale vineyards can prosper despite challenges.



**The phrase 'the squeezed middle' - sometimes used to refer to mid-income households - has relevance to the viticulture sector.**

Thought to have been first used by Ed Miliband or Gordon Brown, the expression came to mind recently when the team and I were doing some number-crunching.

We were studying the data for hundreds of viticulture businesses in the 2017 UK Vineyard Register (the latest stats available) and checking companies' websites - a process which yielded some fascinating insights.

Quite how much of total production was accounted for by a relatively small number of the biggest businesses should perhaps be no surprise; only 50 vineyards seemingly produce more than half the volume. The same is true of the large number of small operations that, although numerous, still only collectively accounted for a small percentage of output.

I was struck by how those at either end of the size spectrum, as in any sector of industry, are often best placed.

Big firms can have the benefits of economies of scale, they have momentum, marketing budgets, access to the latest technical expertise and cash for investment.

The big viticulture operations, often producing large volumes of medium or high quality wine, will in many instances be able to cope with the lower prices which could come as a result of the massive amount of planting in 2018, 2019 and 2020.

The smallest ones, conversely, may well have low costs, low gearing and perhaps lower expectations. Sometimes relying on family labour, they are less exposed to risk. Often dubbed 'hobbyists' they can cope with - and may indeed be pragmatic about - the lean spells.

The owners of such small set-ups may not be reliant on the vineyard for their income. Some will produce wonderful wine, but many will produce lower-grade products that make them unpopular with "professional" producers.

The enterprises between these two can end up caught in the middle. Turnover is, of course, a product of many factors, but for the purposes of my analysis I have in mind many in the 6ha to 40ha range.

This scale still necessitates big capital investments. They might be privately owned, but perhaps not by hugely wealthy people - so any squeeze on output prices, whether that's selling grapes or wine, can hit them hard. They face unique pressures, and will do so more if and when bottle prices fall due to the increased volume of wine coming to the market. Often dependent on achieving high prices for their margins, they could find themselves pushed hard by on-sellers and retailers expecting them to sell at the lower prices the super-large can sell at.

This squeezed middle will be where most change will come. This will be exacerbated by Covid-19, but it's been inevitable for a while. Opportunities are there, though - whether that's focusing on top-end products, niche markets or developing more meaningful incomes from tourism.

Some will already have buildings and infrastructure suitable for visitors, while others may have to start from scratch. In either case, securing the right planning consent will be essential, as will making sure any investment will improve profitability and not simply add cost.

Sifting through the data, I noticed how tourism-related enterprises are not nearly as widespread as I'd expected. More will have come into existence since some of the data was compiled, but our analysis suggested fewer than 10% had a cafe/

restaurant, about a fifth had a cellar door and less than a third ran tours.

I was also struck by how many vineyards didn't have a website (a glance through our spreadsheet suggests about 40%). This will increasingly become a 'must-have' for anyone dealing direct with the customer, whether that's wine drinkers or 'tourists'.

As a consultant I'm frequently surprised by how businesses don't know what their niche is. Ask yourself: What's the one thing we do best? The one thing we have a competitive advantage at? The one thing that makes us most money? If you can answer such questions, you have the genesis of your business strategy.

Collaboration - not something the viticulture sector has always excelled in - will also become the order of the day for more in this squeezed middle.

For joint ventures of any form to work, they require shared objectives and standards, and the right structures and processes being in place from day one, with clarity about responsibilities and communication. In such circumstances, there are massive synergies to be had.

Meanwhile, there will inevitably be some medium-sized businesses who choose - or are forced - to exit the sector and sell their land and/or business. Increasingly, this is happening through private 'off-market' sales and that's part of what I do as an agent: I discreetly put buyers and sellers together and make the process happen, where there's a good fit.

Some vineyards have been around for many decades, but our industry overall is still an immature one. 2021 could well be the year of rationalisation.

Whether it was Ed Miliband or Gordon Brown who coined the phrase, the words 'squeezed middle' may well resonate in the viticulture sector in the coming months.



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