

What's our plan for trading up?

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There has been an increasing call for Australia to grow its markets for high priced wines. I have written several times about the problems this country faces in trying to sell more wines in the super-premium and higher-priced categories. Much of the problem stems from structure of our production and our current sales. We have educated consumers in our key markets to expect reliable, consistent, good quality, fruit-driven wines at reasonable prices. While we have overtaken our main competitors in the Old World in this category, we struggle to gain awareness and sales when competing against higher priced, terroir-based wines from these same countries.

A range of Australian commentators have stated Australia must focus on the higher price points and terroir-based wines if the country plans to grow its overall market and raise its esteem among the more knowledgeable and highly involved wine buyers. Brian Croser and Andrew Pirie have both recently called for Australian wineries to emphasise their terroir in making and marketing their wines.

Readers who follow my articles will know that I take a very empirical rather than a speculative view of marketing. The Wine Marketing Group as part of the new Ehrenberg Bass Institute of Marketing Science at the University of South Australia, has gained a reputation for reliable and replicable research leading to empirical generalisations in marketing. There has been too much reliance on anecdotal evidence, or studies with very small samples, driving much of marketing practice. The Ehrenberg Bass Institute is supported by more than 70 of the world's largest companies, including Procter &

Gamble, Kraft, Unilever, Coca-Cola, Pepsico, General Motors, ABC/ESPN, Turner Broadcasting, Network Ten, TVNZ, ConAgra, Foster's Wine Estates, British Airways, St George Bank and many others, which subscribe to our Research and Development Initiative to gain insights into empirical generalisations in marketing (see marketingscience.info). Theory can be derived in two ways: either through the collection of large amounts of data and theory emerging from patterns in the data; or through theories put forward and then tested across many applications and situations. Science has moved forward through both of these mechanisms. This article is an 'early days' thought piece using some established theory to speculate on directions for the potential success of the Australian wine sector, using geographically designated grapegrowing areas or terroir as part of the marketing strategy.

Since the 1950s, various commentators have predicted that globalisation will result in standardised preferences as countries reach a certain level of economic activity. This has failed to occur. Of course there are specific types of products, whose uses increase as economic activity grows, such as use of automobiles, electronic devices and some other consumer goods. However, once a certain level of economic activity is reached, countries tend to diverge, depending on innate cultural characteristics. For example, before 1990 differences in the number of automobiles per 1,000 people in Europe were correlated with national wealth. After 1990, numbers converged and now the variability in the number of automobiles per family is explained by different cultures, as is the preference for new, as compared to used, cars.

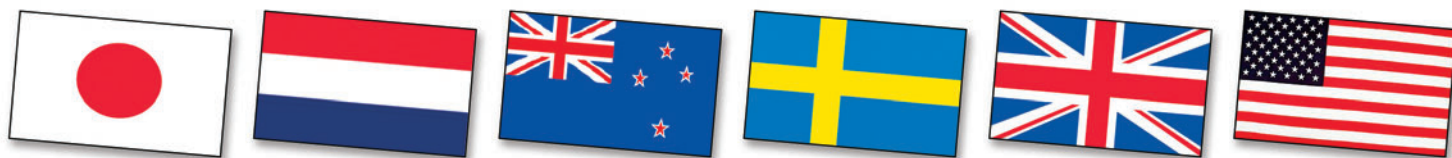
Adoption of electronic communication media is similar. Worldwide, between 45 and 85% of the variance in country-level

adoption is explained by national wealth. In the group of the 26 most developed countries, the adoption of the Internet and mobile phones is more correlated with measures of the different cultures, than with economic development. These same variations can be found across many categories, including soft drink and mineral water consumption. Five cultural dimensions have been measured, which are accepted as defining the main differences among countries: power-distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance and long-term orientation.

There has been no investigation I can find about the growth or decline of wine consumption as related to national culture. Given that strong differences have been found that predict better than economic wealth, the preference for such product categories as fresh versus preserved foods, mineral water versus other beverages, type of Internet usage, it would seem the potential for wine consumption might also be related to the dimensions of culture. It does not seem to be accidental that the Anglo-Saxon countries (e.g. US, UK, Scandinavia and Canada) are the ones growing most quickly in wine consumption, whereas other developed countries are growing much slower. These countries tend to be of low power distance (non-hierarchical), more masculine, with relatively low uncertainty avoidance.

There would seem to be differences in individualism and short-term orientation (US, UK), versus collectivism and long-term orientation (Scandinavia), which means these other dimensions may not explain the differences. Furthermore, not all of the Anglo-Saxon countries are adopting higher priced wines at the same rate.

We need to see which cultural dimensions are most related to drinking higher-priced



wines. We should then be investigating the cultural dimensions of potential new markets, such as Brazil, Russia, India, China, Turkey, Taiwan, Mexico, Korea and Eastern Europe to prioritise our scarce resources in promotion.

It is important to reiterate that the market for wines priced above the popular premium or premium price points (above \$10 in the US and above £5 or equivalent in other markets) is relatively small. Depending on the country, we are talking about somewhere between 5% and 20% of the market by volume. At the same time, the number of available wines in the higher price points is massive, running into the 100,000s as compared to the 100s or 1,000s or so in the lower price points. The task, therefore, is not easy, nor is it a short-term proposition.

The world leaders in the higher price points are the French, who have been promoting their terroir-based wines for decades into all the important markets in the world. It is instructive to understand some of the reasons for their success. First and foremost, they have been at it longer than most and in the widest range of countries in the world. By this I mean some level of formal communication about French wine has been offered since World War Two. SOPEXA, the French governmental agricultural export promotion agency, has actively spread the word about French wines and their associated terroir through tastings, training sessions for sommeliers and buyers, food matching and contests. I remember a project in 1996, just after moving to Australia, where I visited a range of wine buyers in Thailand. I was impressed with the range of French wines on offer and the knowledge many of the buyers and sommeliers had about them, and at the same time their lack of awareness, in many cases, that Australia made wine. These buyers had learned from the beginning about wine being a product of a country, a culture and a special place. This then is what they were looking for to buy and recommend to their clients, to write

articles about in the local fine wine magazines, to put onto wine lists and into tutored tastings. There were a few top Australian wines in some of the shops, but very few on any wine lists.

This same scenario has been played out in every market Australia wants to conquer. The French, and to some degree the other Old World fine wine producers, have over many years taught and trained the most interested sommeliers, wine buyers, wine collectors and budding high involvement wine drinkers to understand wine from the perspective of terroir. Market development for Australian wines for the most part has focused on reliability, ease of choice and fruit forward flavours marketed more through mass outlets.

It is easy to see that a concerted strategy to develop the awareness of Australia as a fine wine producer is a long term and expensive proposition, which differs from developing markets for lower-priced commercial wines. The positive side is that the French have prepared the soil, so to speak, by developing an understanding of regionality and terroir. The negative is that the vast majority of Australian marketing has developed a very different perspective.

Some of our major New World competitors are taking an overt, terroir-based approach with their fine wines. South Africa two years ago developed a DVD of the diversity of its wine regions and has used it in conjunction with a series of tastings for sommeliers, fine buyers and opinion leaders, showcasing the same variety across different terroir. Its latest push is to use the high ecological diversity inherent in the natural plant life of South African wine regions as a tool to explain the different terroir available for grapegrowing. This presentation is available on a high quality DVD and Powerpoint presentation, and is used by Wines of South Africa (WOSA) in promoting South African wines in key export markets.

South Africa is pushing the Cape as a world centre for biodiversity with more

than 9,600 plant flowering species (more than the total Northern Hemisphere). They are linking plant diversity to unique terroir, holding the first Wine Diversity Conference in April, funding research into the links between plant kingdoms, terroir and wine quality, and even bringing in cultural diversity as a link between the soils, the wines and the people.

Individual wine farms are encouraged to preserve natural diversity and develop terroir-based wines on the different areas within their vineyards, and then to promote these within the WOSA framework.

Chile is doing similar things, but on a smaller scale. What is special is that these are industry-based promotions focusing on terroir and wine diversity. Australia has left this important task mainly to the regions and individual wineries, neither of which have the funds to do something as dramatic as our competitors.

We need to conduct research to find where the next potential growth markets for fine wines are going to be. We can and should focus on our existing key markets, although our reputation for commercial and popular premium wines in those markets will make it difficult. We need to be early movers in a few markets, which have high, long term potential where we can establish a reputation for fine wines from the beginning.

We have no established policy to develop a regional or terroir-based promotion for Australia, especially as compared to competitors. Large wine companies and their need to sell large volumes of wine, have driven our focus. There is nothing wrong with this, except it does nothing to grow the market for higher-priced wines. If we are serious about producing and successfully marketing super-premium and higher quality wines, then we need a national organised and focused effort, or we will stay where we are.

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