

The Grange phenomenon

– a signal to independent retailers?

Larry Lockshin

Penfolds Grange has become an Australian phenomenon. The listed retail price is now close to \$500 and even at that price, it sells out in days. The development of Grange is a good case study in creating an icon wine. Even from the days of Max Schubert, Grange was to be something special and unique, a 'spare-no-cost wine'.

However, this year the release of Grange occurred in two stages, it seems. The major chain stores released their allocation about five days before the small independent fine wine stores received their allocations. But more about that later.

My good friend Michael Beverland from Melbourne University, was clever enough to get a gig researching luxury brands. This involved getting paid to visit about 25 luxury winemakers as well as a range of other luxury goods producers to find out how they managed to create these special products. He summarised his findings as, "Luxury brands are a complex system of dedication to product quality, a strong set of values, tacit understanding of marketing, a focus on detail and strategic emergence". Although luxury brands constitute less than one percent of the global wine market, many consumers are aware of them and may even aspire to drink or buy them, but hardly ever are able to, due to their relative scarcity and high price.

The six factors involved in creating a luxury wine brand are culture, marketing, endorsements, product integrity, history and value driven emergence. In general Mike found that luxury wines are created over a period of time by someone with extreme dedication to certain values. Usually this is an overriding concern with product quality and an almost fanatical focus on production, rather than marketing. Grapes aren't harvested by bunch, but berry by berry, for example. Each luxury wine had a history, whether a long European history, or a pioneering history in Australia or New Zealand, and the history and the story was a large part of the marketing of the wine. They also were in some way representative of their culture, or a culture chosen by the winemaker. Most of the luxury wines had emergent-type strategies. Although the maker may have started with the idea of creating a unique wine, the style and its quality emerged over a period of time, culminating in something special. All of the producers are involved in marketing, but not in the sense typical of lower priced wines.

Marketing for them is all about awareness, even if most of those aware of the product can't purchase it. Therefore, there are lots of tastings with wine writers, high-end retailers and restaurants, and even at cellar door. The release of the wine is a big event, with lots of attention placed on the release price and the scarcity of the wine. Mike also found that the marketing had a huge investment in every detail. Colours of labels or support materials were



discussed in great detail before a decision was made. The same attention to detail was made in the selection of agents and distributors, to make sure the wine would be marketed as the company planned. Marketing is also about endorsements, not just by writers, but also by famous people seen to be drinking the wines. Pouring the wine at cellar door resulted in people talking about and endorsing the special experience they had with the wine.

Luxury wines result from this combination of factors, and rarely result from someone deciding to make a wine and charge a high price for it. The price rises with the greater and greater

associations with the previously mentioned six factors. Mike found that each winery emphasised a different combination of the six factors in building their luxury brand, often focusing on just one or two for the most part. The wineries' focus on marketing was also unique. "Some of the brand owners practise marketing but it is based on timeless images of craftsmanship, quality, dedication to place and links with historical personalities and events to convey an image of being above the need to undertake marketing," Mike said. This describes much of how Grange has become an icon wine and probably the single most important representative of Australian wine in the world. Certainly the naming of Grange as *Wine Spectator's* Wine of the Year in 1995 helped grow the global awareness of it, but this can be seen as an outcome of the long term development of the wine.

So what is the problem with using this icon status to choose one set of retailers over another? I received an email, sent to customers of a fine wine shop in Adelaide, complaining about not receiving their allocation of Grange before the Coles Myer and Woolworth specialty stores were already advertising and selling theirs. Grange winemaker Peter Gago was quoted in the press apologising for this 'mix-up' in distribution. Is this a mix-up or merely a signal of the value Foster's sees in different distribution channels? I don't think the source of the problem, whether deliberate or not, really matters. The message is clear. Penfolds, under Southcorp, used Grange allocations to leverage sales of their other lower-priced brands to wine shops. Even though 'tied distribution' is technically illegal, it is common practice in all types of distribution to allocate high demand products based on the ordering and sales of lower-priced and harder to sell lines made by the same producer. Why should wine be different?

Wine retailing in Australia is now embracing the 'category-killer' concept. What was a small section in a department store, or something sold through small specialty stores, is developed into a giant discount warehouse. This has happened to hardware and DIY by Bunnings and some of its competitors, putting the small neighbourhood hardware stores out of business. It has happened in toys with the growth of Toys R Us, and in books with the Borders-style megastores. The store is called a category-killer because it kills the category in department stores and in small specialty retailers. Take a look at the size of the whitegoods, electronic goods, computers, even furniture, or toy sections in a department store to get an idea of the outcome from category-killers. As Dan Murphy's and First Choice stores grow, so will the smaller competitors shrink. How do you compete with large selections and low prices?

It is not surprising that Australia's largest wine company is choosing to reward the retail networks, which will dominate Australian wine retailing. Certainly, the absence of Grange, or even its reduction for the small specialty stores will hurt them, at least with some of their customers. Consumers who wish to purchase Grange, will probably go where they can find it, and experience the competing stores. There is no doubt that some smaller wine shops will not survive this type of competition. Those that do will have to focus on the many other small production wines that won't find their way into the larger chain stores. The question is whether there are enough of these wines and enough buyers to keep these specialty stores viable.

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