

# Marketing in a recession

Larry Lockshin

Is it a recession or not? Or maybe a depression? Or just a slowdown? Whatever the words used to describe the economic situation in Australia and in most of our export markets, the signal is one of worsening economic times and cutbacks in consumer spending.

What should wine companies do in these times? The answers here are suggestions and macro level activities. Each winery, distributor or retailer will have to adjust their activities for their own situation, wine style, inventory and, of course, cash situation.

The biggest piece of advice to give any company in times like this is—don't let up if you can help it. The best time to increase marketing efforts is in times like these for several reasons:

1. Alcohol consumption usually increases in poor economic times. People may cut back on individual prices paid, but overall units sold usually do not decrease;
2. Many competitors will be cutting back. Now is the time to make an impression if you can afford to communicate or visit the market; and
3. Although consumers may be cutting back on big ticket items, small luxuries like higher-priced wines are often used as personal 'rewards' and sales can remain stable or even increase.

There is a lot of evidence that people react to difficult times by cutting back on major expenditures and delaying other purchases if possible. However, food and drink sales typically remain stable, sometimes even increasing as consumers decide to 'treat' themselves to these small luxuries. Certainly, the number of meals eaten in restaurants decreases, and wines that rely exclusively on higher-end restaurants or being at the top tier in the price list are likely to suffer more than wines sold in cafés and less formal on-premise establishments. On the other hand, in-home consumption often increases and people buy a slightly better wine as a 'treat' to have at home instead of going out.

Overall supermarket or discount unit



sales typically stay the same or even increase, while sales at specialty stores and higher-priced outlets decrease. There is evidence that many people cut back on the individual purchase price for wine at supermarkets and discount stores, buying slightly less expensive wines for everyday drinking, while still buying some more expensive wines for special occasions or for a treat. People are not necessarily drowning their sorrows as much as maintaining their regular patterns of consumption, but at slightly lower costs.

However, this is not the time to discount wines to increase sales. Actually this is never a good idea, since the only result is lower profit margins and often a decrease in the 'expected' price for a brand and therefore a diminution of brand equity. Long-term research has shown that lowering prices does not induce many new

customers to try and results in increased short-term sales (at lower prices) and then reduced medium term sales (due to stocking up), and no long term increase in overall sales. If anything, a recession is a reasonable time to consider brand repositioning, label changes and price increases—if accompanied by appropriate marketing expenditure. Again, this is a time when competitors are typically reducing marketing and it is easier to get the attention of buyers and agents.

What do you do if your cashflow does not allow you to increase your marketing effort? I have always been in favour of concentrated marketing effort. If you can't expand, focus on key markets where the investment will have the biggest long-term payback. Don't cut back equally across the board; that will upset everyone to a degree and make no one happy. This may mean

for most wineries making sure they support their best customers: make that visit, co-share that campaign, continue with that important event. Or it may mean deciding to grow a potential market now, while cutting back on an existing market that may not have as much long term potential. These are not easy decisions, but too often the easy decision—take 10% away from everything—has the most negative long-term results.

Another possibility is to focus closer to home where the margins are higher in direct sales. Beware, though, that the price of petrol and shrinking budgets have reduced wine tourism to some degree. Again, many people are opting for short term treats and can be induced to visit a winery. The major issue seems to be that overall traffic is down, and without some marketing effort, it is unlikely that you will be able to increase sales. You may succeed with a targeted local event designed to both sell wine and to build the mailing list for future sales. Also, the direct selling marketplace is

becoming very crowded. Don't expect that merely sending out an email or newsletter will necessarily result in increased sales without some extra effort.

It is cheaper to conduct events closer to home and now might be the time to focus on nearby restaurants and even wineshops, instead of focusing on more expensive overseas locations. Any new effort must be considered as part of a longer term plan, so if now you are aiming to increase local sales by supporting certain accounts, you will have to maintain the effort into the future or risk potential recriminations down the track. It is my experience that retailers and restaurants have long memories for mistreatment, so any changes to your marketing activities need to be permanent, rather than merely opportunistic.

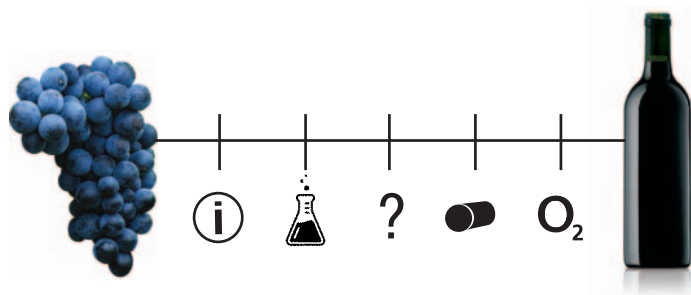
An economic downturn is not a pleasant time for almost everybody. We can be glad that we are in a sector that usually keeps or increases its unit sales during these times. The intuitive response is to reduce expenditure in marketing while

maintaining production activities. It may be more fruitful to look across all areas and focus on what can be delayed in a production sense and utilise the funds to increase marketing activities in key markets, while many competitors are cutting back.

Marketing activities, like vineyard expenses, will not necessarily bear fruit in the short term, but if done properly they will have a positive long-term effect. Many retailers and restaurants will welcome the extra attention and will work a bit harder to make your program successful. It is a good time to contemplate long-term strategic changes like price increases and brand repositioning, accompanied by good clear communications to the market. Now is the time to build a strong base for the coming economic upturn, whenever it occurs.

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