



Time for a change?

Larry Lockshin

After the Wine Outlook Conference the media has been full of commentaries about the state of the Australian wine sector. The main issue is the oversupply of grapes and the unwillingness of most of the growers to remove enough grapes to bring our supply down to the level we can sell in global markets, which seems to be about 1.4 million tonnes.

However, the size of the Australian grape supply is only a current manifestation of a more complex marketing problem facing our industry. John Grant, managing director of Constellation Wines Australia, let slip two almost hidden comments that encapsulate the real issues facing Australia. “The wine industry is really two different industries” and “We have reached saturation in the UK market”.

My colleague Tony Spawton wrote that Australia had two different wine sectors back in 1990 when he described the marketing differences between commercial wine and fine wine in the first issue of *The International Journal of Wine Marketing*. Commercial wines, often dubbed premium wines overseas, sell in a similar way to other fast moving consumer goods (FMCG) on grocery shelves. They require regular

promotions as dictated by the supermarkets, and strong branding.

Australia achieved its enviable position of 23% market share in the UK and its status as the second largest exporter to the US by being better than our competitors at competitive prices. In one sense we are like Coke or Cadbury—a world leader in our category. But the wine market is different; it is much more fragmented than other FMCG categories. The grocery stores can and do play different producers against each other. We have contributed inadvertently to this problem by training consumers to enjoy Chardonnay, Cabernet and Shiraz, which basically opens the door to anyone else using those cues on their labels, including the chain stores’ own brands.

The confluence of the commercial sector of our wine industry and the ability of other countries and regions to produce good tasting wines at lower prices has created the ‘saturation’ John Grant mentioned. In most other categories, the new products come from a few companies/brands continuing to create new flavours, packaging and combinations. In wine, the variety the consumer seeks comes from different countries, which the big chains exploit against us. What is happening now will only get worse in the next year. As the economy in our European and North

American markets nosedives, consumers will continue to seek greater discounts.

Australia’s commercial wine strength has always been in the mainstream grocery stores like Tesco and Sainsbury, which are themselves struggling to maintain their approach against hard discounters like Aldi and Asda. The response is predictable: squeeze your suppliers for big discounts to lower prices on the shelf. All the grapevine pulling we can muster will do nothing to assuage this situation, which is unlikely to ‘recover’ to higher prices once the financial crisis has passed. Australia’s large wine companies will continue to sell into this part of the market, and with today’s exchange rates can still make enough money to survive. In fact this part of the market, including the domestic cask market, is essential to our survival. These wines provide the ability to pay the overheads at our larger companies in order to employ top winemakers and technical people, to fund our industry-wide research and development efforts, and our generic marketing campaigns.

But we have reached saturation in these key markets due to consumers’ greater loyalty to price points and grape varieties, rather than to brands and countries. Our only way forward is to play ball with the big retailers for these commercial wines to maintain as

much shelf space as we can afford, and work to develop new markets for our style of wines. I don't believe that technical R&D will fix this problem. It will keep us in the game but it cannot change enough of the cost factors inherent in our production to compete price-wise at this level.

The other wine sector we have is the fine wine, or super premium industry. Most Australian wineries operate here. As noted at the Wine Outlook Conference, more than 2,000 wineries compete domestically for this small portion of sales. Here is where the Regional Heroes and Icon Australia campaigns focus. The large wineries are also represented with their regional and iconic wines. These wines are profitable to make and sell, but they are problematic. They come from the temperate and cooler wine regions of Australia and are part of the overplanting issue due to the managed investment vineyards planted in these areas. From the consumer side, these wines require some knowledge and understanding in order to purchase them with confidence. This leads

to our problem, and our opportunity. As I noted in my last column in *WBM*, a recession is a good time to focus on marketing, while competitors are weak.

Australia has begun a promotion of wine regions under Paul Henry at the AWBC, but we have not really focused on market education, both domestically and internationally. By this I mean we have not worked on training the trade about wine in general and the unique differences among our regions and styles. Most people do not drink wines in top restaurants with trained sommeliers. They buy wine at the shop or drink it in a casual restaurant where there is no one to ask a question of and no point of sale information about what to expect in the glass. Our recent research, which I wrote about two months ago, showed that objective wine ratings on the shelf and descriptions of the taste of the wine had the greatest impact on the probability of buying a specific bottle, all other things equal.

It is not only the AWBC's job to educate the trade about Australian wines and wine styles. We have all experienced

unknowledgeable (to say the least) service on and off premise. Every wine producer who goes to market should be helping by conducting training, informal or formal, for his or her accounts. Australia has a large number of students studying hospitality in a wide range of programs. Most have minimal or nonexistent wine training. If each winery volunteered to do a short program for their local students, we would at least expose a large number of students to wine at the local level. On a broader plane, our state and national organisations could organise a more rounded program using the existing Australia World Class materials delivered face to face with hospitality students. If we want consumers to trade up, we have to spend some effort explaining what that means and showing them what they receive for their extra money.

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