



Is Australia deaf?

Larry Lockshin

Much has been made about listening to the market, hearing the market signals. We had a year-long visit by Professor Andrew Fearn, Adelaide thinker in residence, who focused on understanding and reacting to information in the supply chain, while he worked with several wineries.

Various grower and industry groups speak about how to better communicate market signals from the consumers in our export markets all the way to the vineyards scattered around our wine growing regions. The market is speaking, but are we deaf, or just unwilling to act?

The major market signal for any product is the price offered. Basic economics says that when supply exceeds demand, prices fall, and when demand is growing faster than supply, the opposite occurs. During the mid 1990s until about 2003, prices for Australian grapes grew and then remained stable. After that, prices started decreasing

to a level now where many growers find them unsustainable. The same is true for the price of many wines. We can blame the large grocery stores in our key export markets or the Australian chains of wine stores for driving down the price of our wines. This is true for just about any mass-produced item; once it becomes popular and enters the main market, chain store buyers force discounts, look for substitutes at lower prices and force producers to acquiesce to reduced margins.

The Tesco's, Wal-Mart's, Carrefour's and their local equivalents earn profits by sensing demand and then searching for the lowest priced versions to satisfy their buyers. Consumers benefit by lower prices, while producers suffer increasingly lower margins, whether it is wine, shoes or toothpaste.

This is the voice of the market. Price signals include a range of issues, but overall the message is clear: there is too much substitutable product, so yours is not needed at the previous price.

Isn't this signal loud enough? How many

government committees, grower groups and wine organisations need to have this interpreted? We have too many grapes and too many wines, and there are reasonable substitutes that consumers are willing to buy instead.

More than five years ago, this same situation occurred in the US. Australian wines were ascendant and US wines were languishing with demand and prices falling. Now US wines are gaining share in their own market and growing, albeit slowly, in export markets. There are still very low priced wines that use some surplus grapes, i.e. Two Buck Chuck (Charles Shaw wines by the Bronco Wine Company), but overall supply and demand have balanced and prices have risen a bit in some regions and more in others. How did this occur?

The growers and producers heard the signals and more than 100,000 acres of grapes were pulled out fairly quickly.

Simple? Yes. Painful? Yes. Effective? Yes.

The structure of US (California) grapegrowing is different from Australia. The average grower in the popular

premium and lower end premium regions is a family farm, but much larger than our Australian counterpart. When the market signals arrived saying that grapes were not financially viable, many growers with low returns began to bulldoze vineyards and many replanted to alternative crops, like walnuts, almonds and pomegranates, because these were in demand at higher net prices. Australia has too many small growers who do not have the financial flexibility to pull out and replant to other more profitable crops without substantial Government aid.

This is not only an Australian problem; it is more severe in the European Union. France, Italy, Spain and much of Eastern Europe are filled with small unprofitable vineyards still being subsidised to grow unnecessary grapes. These along with lower cost grapes from other New World countries give wine shops around the world the flexibility to offer good wines at low prices. Slowly the EU is forcing the reduction of subsidies and the subsequent

pulling of vineyards. The market signals have long been heard, but they are distorted by continuing subsidies to growers by politicians unwilling to take the wrath of their constituents as well as the degradation of many rural communities. Sound familiar? It is similar to Australia, but we cannot hope for the Government to subsidise unprofitable production. There will be some help for farmers wishing to exit, but that is all.

The market signal is very clear. Australia has too many grapes for the current world demand. Our style and our varieties are substitutable. Are there some that are unique enough to achieve a living for growers and wineries? The answer is yes, but again, these are the brands and styles that have built particular demand. There is no magic wand to wave over the 300,000 tonnes of excess grapes being grown in Australia that will miraculously transform them into a profitable crop.

Producers and industry organisations (national, regional and local) are working

hard to build markets for specific styles and brands. There are already and will continue to be some successes, but there will be no rising tide that floated all growers and wineries like the mid to late 1990s. Our competitors are there now with wines that satisfy some of the demand filled in the past by our wines. I write every month about some of the marketing activities necessary to build long-lasting brands. These take time to be effective, and even with time, there is an upper limit to the amount of wine we can profitably sell. We over planted. The market responded and there is no magic elixir to ward off the inevitable. We must open our ears to the signals and produce less, understand what consumers want and provide it, or suffer the consequences.

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