Time is on our side

Larry Lockshin

Is there any good news or good prospects facing Australian wine producers? The short-term answer seems to be no. Even with exchange rates providing a more competitive platform for Australian exports and reducing the competitiveness of imports (except of course New Zealand), wine sales and price points are not increasing in domestic or key export markets.

Our biggest wine companies are reporting dropping volumes even with dropping prices. Smaller companies are seeing fewer visitors and shrinking or cancelled orders.

At the risk of censure from all sides, my view is that we have treated the wine industry just as that—an industry. As demand grew, followers jumped in and each year our trade magazines and organisations trumpeted the amazing increases in new wineries and brands. Sales rose year on year in the US and UK as well in newer markets. This prompted more wineries and more brands and more promotion.

Yet, what did and does the consumer see in these markets? Shelves of under $10 or £5 Australian wines discounted over and over. More than 80% of all wines by volume are purchased in our key markets by consumers viewing these overcrowded shelves of discounted wines. This is the image of Australia we are trying to change with targeted communication campaigns on regionality and new versions of wine flights bringing journalists out to see Australian wine regions and taste our wine styles. These are going to take quite a while (years) to begin to overcome the consumer image of Australian wine in our two largest markets.

The short term is unlikely to be different from projections of various prognosticators, but I think the long run will be vastly different than today. Two main issues are at stake here. The first is the structure of Australia's major wine companies, and the second the long-term evidence of what brings success.

Australia's largest wine companies are not structured to aid in the development of higher priced and more regional wines. My view is that corporate ownership is not conducive to long term thinking. An interesting case study is Peter Lehmann Wines, which was having real problems as a publicly listed wine company. Even though its stock ownership was skewed towards long term grapegrowers and other supporters, it suffered in the stock exchange every time the quarterly reports were due. The only way to mollify a shrinking stock value was to create ways of producing near term profits—the exact opposite of long-term thinking. This meant more focus on lower priced wines, and fewer specialty and reserve wines. Now that The Hess Collection owns PLW, it is growing its releases of specialty wines and aged wines, and winning awards that continue to strengthen its image. Interestingly, it still has mid-priced wines to meet the higher volume price points necessary to pay a share of the overheads.

We can look to other family or privately owned companies to see the same long term outlook: Grant Burge, McWilliams and Yalumba come to mind. All of these have popular priced wines, but can invest for the next generation in better vineyards, higher grape prices and higher priced wines.

This is in contrast to our two largest publicly held companies: Constellation Wines Australia and Foster's. The publicly held model bestows success or failure on a quarterly basis. Stock prices are supposed to take in future cashflows and profits discounted to net present value, but investors (and even directors) have a hard time predicting the profit effect of long term investments in higher quality and higher priced wines. Private owners can ignore the short-term view, if they wish, because it is their money. Public companies cannot. I think we are seeing the failure of the publicly held wine company model to be able to plan and invest for the future while maintaining profits in the short term.

Foster's is certainly looking to sell all or parts of its wine portfolio. I believe these will perform best if the brands are broken into groups or in some cases even single brands, rather than being sold as a unit, so that long-term development can take place. Of course the requisite vineyard resources and winemaking skills would have to accompany the top brands for them to maintain their quality levels. Another aspect of this problem is that the easiest move is to develop and promote wines in the $12-$25 price point. These don't cost that much more to make than popular-priced wines and can be brought to market within a shorter period than higher quality wines. But, this is exactly the price point being abandoned in wine markets under pressure from the global financial crisis and the one most subject to shortcuts in production to meet financial goals.

The second aspect is long-term success. Several years ago I analysed the relationships between James Halliday's wine quality ratings, prices and other aspects of the wineries and brands listed in his *Australian Wine Companion*. (The article published in the *Australasian Marketing Journal* is available on request). The relevant finding was that wineries with an established reputation could and did charge more for wines of equivalent point ratings. The ability to maintain sales and prices has as much to do with building an established reputation as it does with production values. Anecdotally, as I travelled around a bit during the summer break and have spoken to winery managers, I didn't find super optimism, but I did find that wineries with established reputations were selling wine and not discounting. They are still travelling to their key markets and running their promotional events. Some of these were buying more vineyards or building additions to their wineries. They are looking to the future, not the present.

Here is the positive outlook for Australia. We make great wines at all price points. World wine consumption is growing, not shrinking. As more people try wines, some will move up the ladder to higher quality and higher priced wines. Australia needs to be there, on the shelf and on the wine list. Over time it will help us to have some deterioration at the lower price points; to cede some of these to our competitors and focus up the ladder. Part of this will result from changes to the structure of our largest wine companies releasing and/or developing higher quality brands. Some will come from large and medium companies working hard to get higher priced wines on the shelf. Some of our future development will continue to come from our already acknowledged world-class wines.

The rest of my optimistic forecast will come from existing wineries putting in the time and effort to make good wines and to communicate them to the market. This takes time and direct in-the-market activities. Some of Australia's wineries will have to increase their quality and their communications or they will fail. As sad as this might be for those who have invested their time and money in the wine sector, it will help Australia's long-term reputation. Our wine sector is a 'stayer' globally, but each winery that wants to be here in five years has to work to build its reputation every day with each client and buyer.

PROFESSOR LARRY LOCKSHIN is with the Wine Marketing Group, Ehrenberg Bass Institute of Marketing Science, University of South Australia. Email Larry.Lockshin@unisa.edu.au.

Barrel Master fitted with rollers. Stir lees by rotation.