Has America foreclosed on Australian wines?

Larry Lockshin

The figures from the US are not pretty. Sales of Australian wines are down and so are values. The MAT of value of Australian wine exported to the US as of the end of January was down 23%, with sales overall just about flat. It shouldn't be news that discounting has not worked to maintain sales. It never does.

Since the fiasco with Southcorp-Rosemount's Christmas discounting in the UK, wine marketers should have learned that sales rarely respond with the same elasticity as the price discounts. A reduction of 20% in price does not translate to a sales increase of 20%. Sales increase, but at a lower rate and total margins are reduced.

The latest data shows that Argentina is the only importing country in the US market that has increased share recently. All other importers have lost share. But Americans are not drinking less wine overall. Sales increased only 1.5% in the past few months, but nonetheless it is an increase, which Australia is not sharing in. Americans are drinking more American wines, especially from the mid-priced California regions like the Central Coast. It is not clear if this is a result of economic patriotism or of longer-term promotions by these regions in US markets. I have not seen any research that shows economic patriotism to be a viable strategy. Consumers will buy local when it is seen as value-based, but they will not typically pay more to support their region or country. My feeling is that these consumers are seeing more value in American and to a growing degree Argentinean wines. Value does not mean cheaper, but more attractive for the price.

Another issue is that wine is a consumer good. It is subject to fads and fashion. Australian wines in the US and UK became fashionable more than a decade ago, and we all shared in that growth. People I spoke to on a recent visit to the US said that Argentinean wine is seen as more food friendly and easier to drink. I met an importer of Australian and other wines into Canada, and he said exactly the same thing: Australian wines are seen as too flavour-forward, while Central Coastal and Argentinean wines are seen as more subtle. A quick survey of wine shelves showed that most of these more fashionable wines have alcohol levels around 13%-14%. Very few are any higher than 14% alcohol.

Part of the issue is our image, not just the wines. A Canadian distributor I spoke to imports some $20-$30 Australian wines that compare favourably with the Argentinean ones, but buyers are rejecting them or not even trying them. As I have written before, the consumer view of the Australian category is based on the preponderance of wines under $10. The average price of Australian wines in the ACNielsen data is US$7.50. Most consumers see Australia as just that, fruit forward, higher alcohol wines at under $10, and often discounted. This impression colours their view of higher priced Australian wines or causes them to ignore them completely.

I am writing this from the US and it is not just the discounting that is failing. My anecdotal report (not based on empirical research) shows that Americans are tiring of Shiraz and even Syrah wines. I spoke to several wineries which make Syrah and they told me that it is a very difficult sell. These are smaller wineries mainly selling wines around $20 plus and they are blending their Syrah with Grenache and Mourvédre (surprise), which they feel has some cachet at their price points. Our own research using ACNielsen data shows Australia has 14% of the US market by dollars, but less than 20% of that is Shiraz (or about 3% of the US market), which shows that it is a very small part of the US wine market. By definition small 'brands' (varieties) are bought by fewer buyers and less often than larger 'brands' (varieties), which is why Australia sells more Chardonnay and Cabernet in the

US. But all of these varieties have the same issue with fashion as well as alcohol level and fruitiness.

I spoke at two conferences in the US, neither of which was in a mainstream wine area. The first was in Missouri and had more than 450 attendees for the three day Midwest Grape and Wine Conference. Most of these small wineries in the Midwest rely on tasting rooms (cellar door) and direct sales. The word is that sales are a bit slow, but people are still searching for a bit of inexpensive fun and are continuing to visit wineries.

I also spoke at the Oregon Wine Symposium, which was attended by more than 500 industry members. Most wineries were reporting slower but continuing sales. Their model is built mainly on visits, direct selling and on-premise marketing of Pinot Noir and Pinot Gris. The on-premise is certainly an issue as restaurant visits decrease, but consumers continue to buy wines in the $20-$80 price range, although in smaller quantities.

My overall observation here and also visiting and interviewing small and medium-sized wineries in California is that wine consumers are still buying. Icon wines and cult wines are still selling, but several wineries I spoke to are losing members from mailing lists and those on waiting lists are taking their place. Wineries selling in the $20-$40 range seem to be doing the best, with those selling over $40 having much more trouble moving wine either directly or at retail stores. American consumers are still buying wine at lower and at medium to high prices (up to $40).

But no one is saying much positive about Australian wines. Wine writers are increasingly suggesting other wines from the US, Chile, Argentina, Italy, Spain and even South Africa. Visiting wineries and attending these conferences did not start many conversations about good or great Australian wines. Even these highly involved industry members had little or nothing to say about Australian wines. They did ask about the bushfires, but that was it.

What should Australian wineries do to gain traction in the US? Marketing is quite simple. People need to visit the US, their distributors and key accounts. We need to hold tastings and wine dinners—things the AWBC is continuing to organise. We need to stop discounting as much as possible and take a look at the popular premium wines we are stocking in grocery and discount stores. As US consumers increasingly move downscale in price, Australia should be picking up more sales, but we are not. Perhaps it is time to take a look at the styles of these wines and to begin a move to lower alcohol and more subtle wines. It may be terrible to say, but we may benefit in the long run from losing some shelf space and re-entering with renewed enthusiasm and better wines.

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