Tesco is a UK-based global retailer, the largest and most profitable supermarket in the UK. Its 586 UK stores plus stores in Ireland, Calais, Thailand and various eastern European countries generated profits of £881 million in 1998/9. Supermarkets account for nearly 2/3 of the off-trade in the UK, (that is wine sold in bottle shops and by mail-order). Tesco has the largest share of the supermarket wine business with 27%.

Of the total UK off-trade wine market, Tesco has a 17.6% share and in the 12 months to the end of April 1999 Tesco sold over 25% of all Australian wine in the UK. Growth of Australian sales in the last 12 months was over 33%.

Prior to joining Tesco I worked with Australian Wine Agencies importing and selling wines from about a dozen small to medium sized Australian wineries, and in September last year I moved to Adelaide specifically to take up the position as Tesco’s Product Development Manager for Australian and New Zealand wines. This involves sourcing, selection and range management of wines from these two countries. My role is unique, as it is based outside of the UK, and thus reflects the importance which Tesco places on Australian and New Zealand wines.

The UK is Australia’s largest export market in both litre and dollar terms. Across all supermarkets in the UK, Australian wine is the second most valuable product after France’s. The Moving Annual Total to May 1999 for exports to the UK was over 100 million litres according to the Australian Wine Export Council. This figure is 16.2% up on 1998. The next biggest export market (the USA) took just over 1/3 of this amount. With the exception of Sweden the UK is unique amongst export markets in that it takes more white wine than red wine: it is a valuable market which must be developed. The total UK off-trade is worth around £2.3 billion and is growing at 7.5%. Sales of Australian wine are growing considerably faster than the market as a whole. An important feature of the UK market is that it is strongly skewed towards the lower price points (Figure 1).

The average price per 750 mL bottle in a Tesco outlet is £3.48. While Tesco has a policy of trying to trade customers up, this process is frustratingly slow. Last year the average bottle price was £3.30. Prices ranging from £3.01 to £3.50 are now the largest section of the UK off-trade. This low average price is partly a result of the fact that the volumetric tax on wine is very high (approximately £1.10 per 750 mL bottle), and because wine is still considered a luxury by a significant number of people. Market research commissioned by Tesco in 1999 showed that 63% of people questioned had not purchased wine in the last three months.

In spite of the low average price it is still possible to sell good quantities of higher priced, premium quality wines in the UK. Austrailia is doing this. The average bottle price for Australian wine during November and December 1998 was £4.40 (Figure 2). Only New Zealand had a higher average price at £5.50. German wines were just under half of the average New Zealand price. Within Tesco, in the 12 months to March 1999, the average price of an Australian red was £4.75 and for white the average price was £4.05. The four-week figures to March show a small reduction in these figures. It is also worth noting that sales of premium wines—that is those over £6.00—continue to grow very strongly. In the last two months of 1997 wines retailing for over £6.00 accounted for just under 4% of the off-trade, while in the same period in 1998 the figure was over 5%.

It is clear that the UK is a very important market, both in terms of overall volume, and because of the split of white and red, it is an easy market to deal with. However, there could be changes on the horizon and it is worth looking at the history of selling in the UK, albeit somewhat cynically.
Over the last 10 years there has been a constant success of wine buyers from UK ‘multiples’ seeking more Australian wines. The desire to travel to London once or twice a year, and the desire to travel to London once or twice a year, means that there is a serious world-wide over-supply of wine and just about everyone who has wine available wants to sell it to the UK.

So what does the UK want? Why should it buy Australian wines rather than those from New Zealand, Chile, South Africa, Argentina, France, or indeed any of the 20 other countries from which Tesco currently buys stocks of wine? What should Australia do to be able to maintain its competitive edge in the UK wine market?

Some of the things which Australia should consider are: offering better value for money, greater diversity of grape varieties, different wine styles and more organic wines, whilst retaining those entry level slots.

It should be acknowledged that buyers asking for lower prices is predictable, but that does not negate the importance or validity of the request. Grape prices are still too high in most areas. Thus far, Australia has almost got away scot-free with offering only average value for money for the past three or four years. When talking about value for money, it is critical to bear in mind that this must be considered across the price range and not just the sub-£4 level.

Buyers of wines from South Africa, Chile, Argentina, North America and the south of France are all eagerly watching Australian ‘shelf space’ and they are reporting better quality, better value for money and better availability with each vintage. This puts the Australian seller under pressure and under an obligation to remember ‘what the plot was’ and regain the value-for-money status which Australia once had. An Australian wine was never cheap, but it always delivered exceptional value for money. It was the over-delivery of quality which opened up the market for Australia and I believe that if suppliers can once again offer ‘great value for money’ their market share will be driven to new highs. If Australia does not start over-delivering in the value-for-money stakes then there are plenty of other countries with plenty of grapes, and the desire to travel to London once or twice a year.

Now that grape supply has eased and looks set to ease further in the next few vintages, it is my expectation and that of other UK buyers that quality will improve and price will, at worst, remain stable. Lifting the quality of wines, especially those at the bottom end of the market, does have a dramatic effect on sales and product loyalty.

Tesco consumers do recognise quality; they cannot verbalise it but if they are given a better product under a familiar label at a stable price, sales increase. Tesco has tested this premise with Muscadet and Liebfraunmich— and two ‘dirty, un cared-for wines’ were transformed out of all recognition by some attention to detail. While the vast majority of Australian wines cannot be convicted on the charge of ‘dirty and uncared-for’, there are stylistic and quality improvements which can be made.

The sub-£3.99 market has been deserted by most Australian brands and there appears to be huge scope in this market for profitable sales. Perhaps varietal labelled wines are going to be difficult, but well-made blends from the irrigated areas should be able to achieve these price points once again. It is vital that more branded Australian wines move back into this price sector. Certainly there are barriers to this market besides grape costs, namely outrageous packaging costs. But practically, it has to be considered as a serious option at this price level. If Australian sellers are concerned about the quality of bottling or the integrity of the product then this issue must be addressed in the UK or France or wherever it is that offers value for money in packaging.

There is also a marked lack of diversity on the Australian wine shelves in the UK: mainly Chardonnay, Shiraz and Cabernet Sauvignon; whereas countries such as France and Italy have a diversity of grape varieties. As well, the South American section in any UK supermarket will hold varieties such as Bonarda, Tempranillo, Malbec, Sangiovese, Carmanere and Viognier. That of course is in addition to Chardonnay, Sauvignon Blanc, Semillon, Gewürztraminer, Cabernet Sauvignon, Merlot and Shiraz.

Australians Chardonnay, Shiraz and Cabernet have done well and will almost certainly remain the mainstay of the range, whilst Riesling, Semillon and Grenache are useful ‘bit-part players’. For the future I believe that Australia needs another dozen or so varieties to bolster the range (particularly Merlot which is still desperately under-supplied from Australia), and needs also to increase the repertoire of flavours and styles which UK consumers can enjoy.

Tesco lists, and can keep in distribution all year round, five Chilean Merlots, including two under our own label, but no branded supplier of Tesco can as yet keep our stores supplied all year round with a varietal Merlot.

There are other varieties which I believe warrant interest and extensive planting—varieties such as Malbec (both as a stand-alone and for blending), Mourvèdre (for blending), Pinot Noir, Ahricanico, Barbera, Dolcetto, Sangiovese, Nebbiolo, Tempranillo and Graciano.

White varieties are a little more difficult, but varieties such as Pinot Gris, Gewürztraminer, Colombard, Chenin Blanc and Verdelho all appear to have a place on the shelf and more importantly in the glass of the UK wine drinker. These varieties can be and should be premium-priced wines. The difficult quarantine system is not a long-term excuse for having so few varieties planted on a large scale.

Australian wine is seen in the UK as a very strong, reliable brand; it is time to exploit that fact and use those slightly obscure varieties which are established in Australia and push them to the front of international demand. It is interesting to note that after colour and price, country of origin is the third most important criteria for Tesco consumers when choosing wine off the shelf.

As with grape varieties there is too little diversity of wine style. Consideration should be given to some good unwooded Chardonnays, a few more Shirazes with French oak, a definitive Australian rosé in some serious volume, and genuinely sophisticated red wines—wines which might provide a good halfway point between the leanness of a Bordeaux red and the mouth-filling richness of many of the top reds. At the £10 level there should be more really stylish wines which will serve to win over some of the Decanter-reading, claret drinking constituency. Weird and wonderful blends (as long as they really do work from a taste point of view) like the two...
‘Soho’ wines from Southcorp—a Chardonnay Verdelho and a Shiraz Chardonnay—are wines ideally suited to the UK.

Australian Chardonnay is still in demand from consumers and prices are falling. Chardonnay has now gone beyond being a ‘fashionable choice’; it is an established fixture in the wine drinker’s repertoire, but sellers must keep their attention and keep offering excitement and interest, diversity, value for money and both wooded and unwooded styles. The UK consumer is happy to accept the ‘unwooded’ concept. There is after all a long history of selling unwooded Chardonnay in the UK—Chablis! Certainly, UK journalists with their wider contexts have received unwooded Chardonnays much better than many Australian journalists have.

The problem with unwooded Chardonnay seems to arise when the marketing department announces the need for the wine after vintage and all that is left is some warm climate fruit which never got to see any chips in the tank. Such wines are not what the UK wants from this style. Unwooded should not be second best, should be made from fruit sourced from appropriate cool climate areas and made with all the attention to detail which is lavished on the barrel fermented, lees-stirred kind.

The best unwooded Chardonnays sell in large volume from around £4.99 to £7.99 and have a finesse and elegance about them (like those that come from Padthaway), as well as ripe fruit and crisp acidity. The Riverland and other warmer areas should continue to produce the oaked style of Chardonnay with richness of fruit and that ‘bottled sunshine’ style which has made Australia famous. There is room for an evolution of this style; an adjustment in the level or style of malolactic fermentation perhaps, or the use of better oak To keep on selling Chardonnay growers need to look for ways of getting better flavours, without the flavour being ‘too ripe’.

A key point in selling Chardonnay, indeed all wines, is ‘drinkability’; drinkers want to come back to buy or try again. There are many wines that are still one-glass-wonders. I think it is important that an Australian style is maintained, but that style must be allowed to evolve.

Organic wines

While this sector of the market is quite small at the moment, as an added competitive edge full organic status can only help sales of these wines. The climate in many Australian areas does appear to lend itself to organic production and Australian know-how and technology should be able to overcome the problems inherent in making organic wines. Organic production is clearly not suited to all producers or all regions, but in an increasingly competitive market it is worth considering.

Tesco, in a company-wide initiative, is developing a broad range of organic products, but the selection of organic Australian wines available is limited and mostly quite ordinary.

As a midway step, the promotion of the integrated pest management program and schemes such as ISO 14001 appear to have benefits and put a producer on the front, rather than the back foot when discussing environmental impacts.

Vegetarian wines

Vegetarians account for a significant sector of the population and increasingly they are looking for wines which have been grown and made without the use of animal products. This is a market which could be developed further. Many Australian wines are already made without use of animal products, so it is well worth advertising this fact. Tesco maintains a central list of vegetarian wines and calls to the enquiry line are growing all the time. Even if animal products are used, either in the vineyard or as processing aids, and their use can be avoided at little additional cost, this is certainly something to consider.

A cautionary note or two

Several vineyard developers in Western Australia have spoken to me about the large volumes of Semillon/Sauvignon Blanc which they intend to bring to the market in the next few years. If growers in Australia are thinking of producing this blend for the UK market, (and your name isn’t Cape Mentelle!) then think again. It may sell, but at a near ‘give away’ price.

A similar situation exists with Sauvignon Blanc. Producing it in the irrigated areas is fine, as long as growers accept that the price is always going to be low. A few strongly-branded and promoted products do sell for a respectable price, though the going will be a lot harder in the next few years. High quality and therefore highly priced Sauvignon Blanc is so strongly associated with New Zealand and the Loire Valley that it hardly seems worth the effort to grow it in Australia. Lenswood is perhaps the honourable exception.

If growers want to compete at the bottom end of the market then they are up against Chile with plenty of A nean snow melt, cheap labour and retail prices of £3.99.

Although the European Union is obliging Australian wine producers to draw lines around the various regions, most consumers are not especially concerned—all they want is a good drink for a fair price. In the medium term, and at the higher price points, there will be some merit in regional identity, but with the industry growing so fast and pushing out the boundaries of many of the older established regions it is difficult in many cases to know what a regional style is. The brand will be king for the foreseeable future.

In conclusion it is fair to say that Australia has a really substantial share of the UK market within its grasp, but suppliers will have to become more competitive, more innovative in terms of wine styles, and more adventurous in the planting of new varieties. The market is there and is keen to drink an Australian wine. Hazel Murphy suggests that Australia can sustain about 13% of the UK market and I see 15% as achievable and sustainable, if standards are raised.