Market demands on wine styles

Shane Tremble
Liquorland Australia Pty Ltd

Introduction
Liquorland Australia Pty Ltd is a wholly-owned subsidiary of the Coles Myer group of retail businesses. My role in the organisation was to run the department that buys the wine for four different retail brands. In the financial year just completed the company’s total sales were just in excess of $1.2 billion of which around $420 million was wine. Prior to this position I spent the past five years as national manager of the company’s group of 45 Vintage Cellars stores. The Liquorland sales data contained in this paper represents the biggest possible slice of the Australian off-licence market. In market research terms it represents a very significant sample; however it does not represent the on-licence sector.

This is the background to the direction that Liquorland has taken in its business. The decision to focus on the wine category by segmenting Liquorland’s retail brands was taken at a strategy conference in the Hunter Valley in July 1992. Liquorland then opened the first Vintage Cellars store in the Sydney suburb of Mosman in December 1993. Once it had perfected the format, however, 44 Vintage Cellars stores opened in the next four years. The company now has in Vintage Cellars the most successful premium wine chain in Australia; and in Liquorland a national chain of convenience liquor stores that stretches from Cowra to Kunnunurra.

Liquorland is a convenience-driven liquor store concentrating on mainstream brands; and Vintage Cellars is positioned as a premium wine merchant with a national network of 45 stores and a national database of 120,000 wine club members who receive a bi-monthly newsletter. These stores are also an excellent research and development focus for the Liquorland brand. There is a direct-mail servicing of the growing market for delivery of pre-selected dozens, as well as Quaffers, a wine superstore. Wine sales have increased from $250 million to $422 million in four years and this represents almost three million cases of bottles.

To put my remarks into some sort of context I would like to comment on the recent historical background of the industry. From the earliest days the Australian wine industry seems to have been locked into a perpetual cycle of rapid increases in planting and wine production, followed by plateaus and some decline while the demand for an Australian wine catches up with the burgeoning supply. The last period of growth that compares with the one that we are currently going through was during the soldier settlement program after World War I, and, despite flat spots that came after steep climbs, it is gratifying to note that the trend line continues to rise. Domestic sales in the last 15 years are just starting to return to the level of the ‘golden years’ of the mid-1980s. However, overall growth has not been fuelled entirely by growth in the domestic market.

In the last fifteen years red wine has been ‘the winner’ in domestic consumption. The dramatic growth over the past three years in particular is no doubt a by-product of the world-wide swing to red varieties. This has possibly been enhanced by the medical profession’s assurances about the health benefits of moderate wine consumption. Rosé and fortified wine sales continue to decline, and domestic white consumption is still below the historically high levels that were reached in the mid-1980s.

The increasing gap between growth in volume and the growth in sales dollars represents rising prices, a natural outcome of a golden age of export growth, and consistent domestic shortages particularly in red wine. During the past five years the average retail selling price of a bottle of white wine has increased from $7.30 to $9.50—an increase of over 30%; and red from $8.20 to $11.70—an increase of 43%.

The average prices shown are for off-premises sales, and the percentage growth figures shown are Liquorland growth, which is currently ahead of the total market. I have included cask wine figures to show that the strong growth in red wine sales is not confined to bottled products. Most of this growth is in the so-called premium 2 litre range. Bag-in-box still represents more than 50% of table wine in litres but in terms of dollar income it falls to less than 20%. Despite what some of the wine writers say, the country’s love affair with Chardonnay is far from over. A lmost four out of five bottles of white wine sold in Australia are either straight Chardonnay or a Chardonnay-predominant blend.

Riesling
The much-vaunted Riesling revival is finally starting to happen. The wine writers have been talking about this for 10 years, but over the past year there is actually starting to be a shortage of top quality Clare and Eden Valley Riesling.
Domestic Sauvignon Blanc has shown modest growth by the standards of some other varieties. However much of the growth in this variety, at premium price points, has been achieved by increasing quantities of New Zealand imports.

**Semillon**
This diverse variety is not understood by the average wine consumer. There is a significant difference in style between aged Hunters and the unoaked and oaked South Australian examples of the variety.

**Merlot**
Once again the strongest growth has been in the premium red varieties. Merlot has shown enormous growth, particularly since most examples of the variety have been selling at $15+ price point. The extension of some major commercial brands, such as Lindemans Cavara and Banrock Station, into varietal Merlot and the consequent availability of these wines at price points below $10 will generate a huge increase in sales of this variety.

Newer red and white varieties such as Sangiovese, Pinot Gris, Tempranillo and Bourbelenc are not included in this table. They are all showing very strong increases in percentage terms, but the actual increase is small given the tiny sales base. A is usual with these things, the amount of column centimetres that they receive from the critics far exceeds their impact in the market.

**Summary**
To summarise the situation in the domestic market, there has been a period of modest but steady growth in per capita consumption of wine, to the stage where current consumption levels are almost equal with the highest historical levels. This situation is not reflected in consumption of other alcoholic beverages. Beer and spirits have both shown declining consumption over the same period. Following on from this and population growth, overall domestic consumption has been driven to record levels, and continues to show a very healthy growth trend.

At the same time there have been some dramatic changes in domestic consumption patterns. In financial year 1998 domestic white wine volume was almost identical with that in financial year 1992; while in the same period domestic red wine consumption grew by almost 70%. In terms of retail sales dollars, red wine in bottles has overtaken white in bottles in the past twelve months. This, combined with an exploding export market, has led to significant shortages, particularly of red wine on the domestic market, and consequently to sharp increases in prices over the last five years.

Turning to the export market, one could make a very solid argument that, in terms of growth at least, wine has been Australia’s most successful export over the past ten years. There has certainly been no other industry where Australia has succeeded in claiming such a market share from extreme- ly well established (if occasionally somewhat complacent) competition.

The vision outlined in the industry’s Strategy 2025 (one that was thought to be wildly optimistic at its launch on 17 June 1996) has so far proved to have erred on the side of conservatism. Two of the core projections of Vision 2025 were that the total value of our wine exports would exceed $900 million by vintage 2001 and that winegrape supply would reach 1 million tonnes by 2001—both of these projections have been achieved in vintage 1999 with two years still to go. During the period financial year 92–93 to financial year 97–98 the average dollar value of Australian wine exports has increased by over 50% from $2.80 per litre to $4.22 per litre. It is a shame that we cannot add value to this extent to some of our other agricultural and primary exports. However, we need to ensure that value is being added, not just that more is being charged for the same product.

Australia currently has about 50% of “our eggs” nestled comfortably in the one big basket that is the UK wine trade. The remainder of the European Community, a potential market in excess of 10 billion litres, imports less than a third the volume of Australian wine that the UK does. The other main areas for potential growth are the North American markets, where Australia currently has a market share of about 2.5% in a potential market of 2.5 billion litres. Asia is a market with huge potential for the Australian industry, as consumption there is increasing at an exponential rate. Australia’s proximity gives it an advantage, but the complex nature of these markets, combined with cultural differences, means that they remain a relatively small portion of total exports.

One of the things that needs to be considered if Australia is to continue with export growth is to re-discover the beverage wine market, and recognise the fact that price is still a major driver of consumer choice not only locally but overseas as well. Over the past three years Australian wines have largely abandoned the £3.99 and below price points in the UK, and it had not really become established in the sub-$8 area in the US. It is vital that to continue to provide consumers, particularly budget-conscious consumers in overseas markets, with these entry-point Australian wines.

How can Australian exporters make a profit at price points like these? Once Australia was the enfant terrible of the wine world, managing to get under the guard of the complacent old world producers in their own traditional markets, just 10 short years ago. There are some dark clouds on the horizon—our rate of growth in exports to the UK has slowed appreciably over the past two financial years. While this is almost inevitable as our market share grows, it is still a concern, given the importance of this market.

Last summer the Australian wine industry found itself at the centre of an article by A.ndrew Jefford—the Evening Standard’s wine writer—in the influential Decanter magazine. Jefford’s critique was directed at winemakers imagining that they could blend between regions in an attempt to create a wine that people could actually enjoy—as opposed to study. But, there is a grain of truth amongst his sweeping generalisations. There are some Australian winemakers for whom the successful formula for a new export label comprised the following: a South-eastern Australian appellation; a heat summation of about 4000 H D D; cropping levels about 14 tonnes to the acre; grapes picked at about 14 Baume; a few bags of tartaric; and a few shovels-full of that rare species of oak Quercus fragmentus.

If we are going to maintain and expand the hard-won market share Australia needs to do better than this. Our significant competitive advantage in areas like winemaking technology and dry-land viticulture has been significantly eroded, and will continue to be, as old world competitors shake off their complacency and arrogance, and our new world competitors (in places like Chile and South Africa) start to invest the necessary capital in their production infrastructure.

A nother word of warning about export markets. It should be noted that not all retailers, particularly big chain retailers, are generous or accommodating. The rules of doing business are often very different. In addition to the modest new line fees demanded by some American retailers, there are reports of British buyers demanding the refurbishing of wineries, and
the packaging of wine in 537 mL cartons. It sometimes works in our favour—one large French cooperative that Liquorland does business with was told that if they wanted to sell wine to Sainsburys they had better employ an Australian winemaker.

Factors driving consumer choice

I now come to the factors that drive consumer choice of wines at point of sale. The research that follows is Australian market research conducted by Nielson; however I have also drawn from a study called ‘Consumer Risk Perception in the UK wine market’ by Mitchell and Greatorex, published in the European Journal of Marketing. Much as the marketers would like to neatly label us—there is no such thing as the average consumer. The Vintage Cellars business has individual customers who buy in excess of $250,000 worth of wine per annum. To attempt to draw common conclusions from the purchasing patterns at either end of this spectrum can be a recipe for marketing disaster. I do not think that it would be an exaggeration to say that a significant proportion of the marketing dollars spent by the Australian wine industry over the past five years has been spent on particular brands. Despite that, the highest percentage of spontaneous recall of any of these brands was 13%. Consumers participating in this research were asked to nominate the first brand of wine that came to mind. Only four wine brands, Lindemans, Jacob’s Creek, Rosemount, and Queen Adelaide were nominated by more than one in 10 wine consumers.

Imagine for a moment the results of the same survey conducted on soft drink! Looking at the market from the point of view of the consumer, it is enormously complex and confusing. In addition to the mystique that the industry has built around the product—that you have to be an expert to know whether or not you are actually enjoying wine—there is the additional complication of choosing between the products of over 1,000 Australian producers. Even a fairly poor wine range in an average suburban liquor store will comprise about 400 lines, and the average Vintage Cellars store would carry nearer to 860.

The ultimate reason for the success of brands in the wine market lies in the very crowded nature of that market. Time and again research tells us that outside the most basic parameters of price-point and style, something like seven out of 10 wine purchasers have no idea which wine they will buy at our stores. Strong branding can serve to counteract this problem, providing a clear point of reference—particularly for newer, less experienced consumers.

The outlet is also an extremely important factor in the consumer’s choice of wine. The retail sector of this industry has traditionally been extremely fragmented, mainly due to legislative factors. The universal licensing law is a dream that is as remote as the standard gauge railway in this country. In every state, governments of every political persuasion are telling consenting adults under what circumstances they are permitted to have a drink, how much they can buy, when they can buy it, and, in one ludicrous case in beautiful Queensland, the size of the outlet from whence they purchase their wine. In excess of 90% of take-away wine purchases are still made from traditional sources; i.e. the local bottle shop—that shop is usually owned by a chain operator or a strong independent. What this means to the average producer is that the way their wine is distributed is almost as important as how it tastes, and what it costs. The bigger the retailer, and the more advantage they have for the producer in terms of volume potential, the more difficult they will be. Space on the shelves is an extremely valuable commodity, and competition for it is intense. Liquorland spends $250 million a year wholesale value on wine—it is their job to ensure they get the maximum possible return on their investment.

In attempting to influence the average purchaser to buy their wine in preference to someone else's wine, or to buy a larger quantity of wine than they normally would, the marketing gurus of the wine world have formulated a number of promotions designed to motivate the consumer—with varying degrees of success. One of the most successful is a discount price. However, this is one case where not giving the customers what they want could turn out to be the most profitable strategy. Constant price promotion, particularly deep discounting, can devalue a market’s perception of a brand and eventually destroy that brand. For this reason it is important that the marketing mix contains strategies other than discounting.

From the consumer's point of view, there is a big difference between reading about wine specials in the paper, and actually actively purchasing. All the research done for Liquorland’s retail brands indicates that it is a relatively small group of consumers that will chase newspaper specials from outlet to outlet. In many cases these are not customers that you want anyway, as they are driven solely by price, and consequently very difficult to make a profit from.

The vast majority of wine consumption still takes place at home, and this in itself is a strong driver of consumer choice. A consumer’s choice of wine is strongly influenced by the occasion on which it is to be consumed. Obviously Sunday afternoon barbecues have little in common with sit-down Saturday night dinner parties. In summary the purchasing process is as follows:

- buying a wine is not complicated; consumers have a routine
- price sets the boundaries helping to make selection easy
- brand familiarity and a good deal are the next considerations
- packing, labelling information, region/year, help tip the balance.

A gain a word of warning. In order for Liquorland to have the opportunity to entice consumers to choose between different brands of wine, it needs first to convince consumers to make wine their beverage of choice, or at the very least part of their portfolio of beverages.

While wine consumption is still increasing in this country, it is doing so at a much slower rate of growth than in the past. The drinks of choice for new consumers are coming largely from the ready to-drink market, which has been the fastest growing segment of the liquor industry for the past three years.

Keep in mind that this figure of 20 million litres is Liquorland’s volume only, and that it represents a much smaller slice of the ready-to-drink market than Liquorland’s share of the wine market. One of the things that will sustain and increase the wine industry into the next millennium will be the entry of new consumers into the wine market, and unless we as an industry provide them with those entry point products we will lose them forever. In discussion with a wine producer from Chile, he outlined a problem that has become endemic in countries with a traditionally high per capita wine consumption—that is that when breaking down the 16 litres per head per annum average they made the startling discovery that the 50 year old-plus consumer accounted for over 60 litres per head per annum, whereas the under 25 year old consumer accounted for less than 5 litres per head per annum. The past 10 years have seen a four-fold decrease in
per capita consumption in Chile. Little wonder that they are working so hard on getting their export business going.

I would like to emphasise the importance of building brands in this industry. The French, who have lost significant market shares to new world producers at the beverage and commercial end of the wine market, are masters at building prestige brands. Möet & Chandon in its various incarnations is probably the closest in existence to a global wine brand.

Case study

The final part of this paper is a small case study of three very successful new Australian wine brands. And while they may not stand up to Yquem, Grange, or Mouton in terms of pure quality or pedigree, they are a prime example of what must be replicated in the coming years if Australia is to achieve the vision outlined in Strategy 2025.

BRL Hardy’s Banrock Station has been the most successful Australian wine brand of the past four years, with its deliberate ‘cause-related marketing strategy’.

• consumers are looking for synchronicity with their perception of themselves and the brands they purchase
• this is impacting on purchasing behaviour
• consumers want to be reassured that they are supporting socially responsible and responsive enterprises
• it is important that cause-related marketing is bound in fact and supported by tangible results to the nominated cause.
• BRL Hardy stepped out of the mainstream and aligned one brand with Landcare Australia and Wetland Care Australia.

This ‘wholemeal packaging’ and marketing has struck a major chord with Australian and overseas wine consumers. The brand has successfully managed extensions from bag-in-a-box to bottle, to sparkling white, to premium varietal and shortly to a sparkling red. At the moment it and the Lindemans Bin range are the only Australian wine brands that are serious challengers to Jacob’s Creek’s dominance as the pre-eminent Australian export brand. The modest domestic contribution of 1.6 million litres represents only a small percentage of this brand’s rapidly increasing global volume. They say that ‘the clothes maketh the man’. If this is the case, then does ‘packaging make the wine?’ It is agreed that while the package might sell the first bottle, the wine sells the second bottle. Soho’s unconventional wine styles—particularly the Shiraz-Chardonnay blend—have provided many non-wine drinkers with a palatable entry into the world of the fermented grape. The day-glo green and plum-coloured bottles were the source of mirth among many traditionalists when they first appeared on the shelves almost 12 months ago. The smirks disappeared, however, as the volume climbed above 100,000 cases after less than six months. The launch of a sparkling extension to the Soho range this month will lift this brand into the top 10 sales dollar generators.

The wine which, more than any other, has defined Australian wine to the world at large—Jacob’s Creek—is far and away the largest Australian wine brand. The introduction of a sparkling extension to the brand has met with instant success both in Australia and in the UK.

In summary, the bottom line for the industry must continue to be:

• a continuing commitment to excellence on the part of all sectors in the wine industry
• pre-eminence for Australian wine in all sectors of the market from beverage to super-premium
• the creation and growth of powerful domestic and international wine brands

This paper may seem to outline a rather hard-nosed and commercial view of the industry and its prospects. I make no apologies for this as I firmly believe that you, the people who are the real heart of the industry have to view things in the context of the real world and the real wine consumer. At the same time it is important that we recognise that there is something special about this industry—that it is not simply a case study in the marketing of fast moving consumer goods. It is that ‘something’ that occasionally makes me buy a supply of wine that I know I haven’t got a hope of selling. Simply because I love it. I hope that this is the ‘same something’ that drives you to grow or make that wine.