Meeting market specifications—a structured tasting

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Introduction
The tasting included three wines from the same variety—Shiraz, the same region—Mudgee, and the same vintage—1999, which were chosen to represent three different wine qualities and price points when they eventually reached the market.

Classification
Classification is the process that occurs at the end of vintage, when fermentations have finished; when the winemakers line up a sample of every batch of wine and say ‘what do we have?’ The wines are examined for quality, style, depth of flavour and true to type—that is, how typical the wine is of the grape variety and region. The questions the winemakers address at that point are the positive characters and deficiencies—the depth of fruit and balance, whether the wine needs, or can take, oak maturation and, most importantly, whether the wine has enough style and individuality to stand alone or can only be consigned to a larger blend.

In many cases testing will simply confirm what was already suspected before the grapes were picked. The history of the source block and in-vineyard assessment will already have allowed that fruit to have been ‘streamed’ into a likely end-use; the wine may already have received some oak treatment as a result of high expectations.

The tasting
Each wine was examined in turn, looking for qualities, deficiencies and overall balance. The price-points (off-premise) for the wines were classified to approximately $7, $12 and $20. (The wines were not finished wines and eventually would be combined with others to create the finished product. The $7 and $12 wines were already assemblies of different wines classified to that price-point.) The wines were supplied by Philip Shaw of Rosemount.

$7.00 wine
This wine had the palest colour of the three. On the nose there was moderate fruit intensity, but dominated by a herbaceous, tomato-like aroma which indicated a lack of physiological ripeness. There was little in the way of recognisable varietal character. The palate was quite lightly structured, with very light tannins and that same weedy fruit. The balance was on the acidic side and the wine finished with some green, stalky characters. The wine was palatable, but would be improved by being blended with some fuller-bodied, riper material.

$12.00 wine
The nose showed greater depth of fruit than the previous wine, with more ripeness and sweetness, but a trace of herbaceousness still lurked underneath. The palate had more flavour and was better structured, although it was still only medium-bodied at the most. The tannins were soft, but did look mature and avoided the greenness of those in the first wine. A little complete in itself, this wine would have difficulty sustaining a $12 price point without being assembled with other, stronger wines.

$20.00 wine
This had the deepest colour of the three, with distinct purples. The nose showed very obvious new oak which partly masked the fruit. However, the fruit was clearly sweeter, riper, and showed more depth than the previous two wines. The palate had good balance and pleasant depth of flavour, with red berry fruits. It finished with soft tannins. The sample was taken from a new barrel and was not representative of the finished commercial wine, which would also contain some unoaked portions.

The input costs, holding costs, and profit margins for wine are such that, as a general rule, multiplying the retail per bottle price of the wine by a hundred will give the cost of the grapes the company can afford to use. So, if a wine is likely to sell for $12 a bottle, a winemaker can afford to spend about $1,200 a tonne on fruit. The converse is that if the company has paid $1,500 a tonne for the fruit, it should be getting about $15 a bottle for the wine.

In 1999 was a difficult year in the central west of New South Wales and grape prices, at least for reds, were at an historical high. Nevertheless, if growers of Shiraz grapes are consistently putting their grapes into $7 products, and are not prepared to make the effort to gain higher quality, then it is unlikely that a contract would be rolled over once red grapes come into surplus in about two years’ time. The more likely outcome is that those growers will sell grapes for $700 a tonne and this is not a desirable outcome for growers in the central west of New South Wales.

Price structure
Table 1 shows the share that four price brackets hold in the off-premise red wine market in Australia. Normally the relationship between retail price and volume shows a pyramid structure, with the largest volumes sold in lower price brackets and the smallest at higher prices. However, the red wine market has become distorted by price pressures; also the price brackets in Table 1 are not equal, so in this case the pyramid is not a perfect one. Nevertheless, the numbers show that the greater part of the volume—60%—is at lower price-points. With white wines, the proportion of wine sold over $20 is even less. Additionally, most of the wine sold under $20, and certainly under $12, is not regionally declared. The result is that growers need high quality focus and special credentials if they want to grow grapes for the over $20 segment.

In considering the price points in two of Australia’s overseas markets—the UK and the US — the average price for...
a bottle of wine off-premise in the UK is about £3.40. (These prices are from 1997, but the comparisons are still valid). Although this equates to about $8.50 in Australian currency, in our market it would equate to a $4.50 bottle of wine. The average price for an Australian bottle of wine in the UK is about £4.40. In other words, the British public is saying ‘We are prepared to pay one pound more, on average, for your wine than we are for the rest.’ Only one other country has a higher average—New Zealand—and it is selling a much smaller volume than Australia.

In the UK, the greater part of the volume is under £5. In wine terms this is the equivalent of about $7 a bottle in Australia. This means that if grape growers want to be significant players in the under £5, high volume market in the UK, they need to sell their grapes for $700 a tonne or less. The alternative is to produce grapes in smaller volumes for the £5-8 market, where Australia still has a larger share than any other country, but in this case growers will need to chase quality.

Table 2 shows the average retail prices (US$) for wines from various countries in the United States market. Once again, this clearly shows that Australian wines sell at a distinct premium to the rest of the market. But this is not an unassailable position. ‘New France’, principally the Languedoc Roussillon, is each year producing better quality at a competitive price, and Chile is also increasing quality and volumes.

Wine commentators—the writers and the buyers, particularly in the UK—have been saying for several years that Australia has been on the verge of losing, or has even lost, its value for money position. Decreases in grape prices for whites have already started and will occur soon for reds, as they too come into surplus. It has been noted that the correct price for Cowra Chardonnay should be about $950, perhaps $900 per tonne, and that is if the Australian dollar stays at about U$65c. If it rises closer to U$80c, then growers can expect prices somewhat below that.

The lesson from these markets is that, in quite a short time, Australia has carved out a very strong position, but a position that will be increasingly threatened by competition from other countries. There are two routes open to us. The pursuit of the high volume, value for money line—which can only occur with a major decrease in grape prices; or Australia can chase the premium price points, which will mean doing everything possible to maximise quality in the vineyard.

Summary
Returning to the three red wines; the $7 red represents an untenable position for growers in the central west of New South Wales unless they can run a vineyard profitably with a grape price of $700 a tonne. The two other wines show the preferred position for these regions, but to supply these price-points growers will need to chase quality. Increasingly growers must become aware that quality can be achieved and assessed in the vineyard.

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<th>Price</th>
<th>Share</th>
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<tr>
<td>&gt;$20.00</td>
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<tr>
<td>$12-$20.00</td>
<td>30%</td>
</tr>
<tr>
<td>$8-$12.00</td>
<td>31%</td>
</tr>
<tr>
<td>&lt;$8.00</td>
<td>29%</td>
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Table 1. Red wine price categories in Australia (% by volume of off-premise retail sales). Data from A.C.Nielsen, February 1999

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<tr>
<th>Country</th>
<th>Ave. bottle</th>
<th>Ave. varietal wine</th>
<th>Ave. Australia</th>
<th>Ave. France</th>
<th>Ave. Germany</th>
<th>Ave. Italy</th>
<th>Ave. Chile</th>
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<tr>
<td>Ave. bottle</td>
<td>$3.66</td>
<td>$4.69</td>
<td>$7.38</td>
<td>$6.30</td>
<td>$5.42</td>
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Table 2. Average retail prices (US$) for wines from various countries in the United States market