

AUSTRALIAN WINE



Is it oversupplied or just undersold?

Q: Australia is such a small player on the world market, why can't we find new sectors to soak up current excess supply?

SG: Because production has grown in many areas over many years and yet consumption has stayed at relatively slow growth (marginal in fact).

SM: The issue is not so much about finding new markets to soak up excess supply, rather it's about taking action to address excess industry supply by building consumer demand and expanding existing markets for high quality, high value, Australian wine.

WA: In recent years, global economic factors have changed significantly. We have witnessed a change in our export footprint with strong growth in Asia coupled with producers ignoring non sustainable price points, particularly in the UK and US.

One of the challenges we have is that the excess supply does not necessarily reflect the quality and regionality of Australian wine. Flooding the market with excess,

This month Grapegrower & Winemaker invited four industry experts – Dr Steve Goodman, Xavier Bizot, Andreas Clark and Simon Marton – to consider whether the ongoing cry that there is too much wine is an accurate assessment of the industry's true position or whether there are other ways to better manage the market.

low quality wines has the potential to impact the collective work of the industry to ensure far greater awareness in all our markets of the quality and diversity of wine produced here.

We have had to navigate chronic oversupply from three successive large vintages during 2004-2006. This led to a period of stock clearance activities and entry to the sector of opportunistic

traders, both of which have obscured the promotion of our diversity and our fine wine endeavours.

However, following three successive below-average vintages in many countries, including Australia, and continued growth in global sales, the environment is shifting.

XB: Australia produced 12,660,000hl of wine in 2012, and is the 6th producer of wine in the world according to OIV. This means Australia is a big player. OIV's State of conditions Report concludes that world production of wine increases while consumption is stabilising. Australia is facing the same problems as all other wine producing countries.

Q: Is enough being done to market wine domestically?

SG: Given the growing power of the anti-alcohol lobby it is a tough call on increasing wine promotion domestically.

What I do think is that there are not enough supply chains that have organised

themselves to be able to more efficiently market themselves and their offering.

I also don't think enough is being done by those that cannot access the big supply routes to establish ways around the roadblocks – I think much more can be done with cooperative supply chains and merchandising as well as 'remote located' region-driven cellar doors.

SM: The wine industry always needs to do more. We operate in a world with many wines, many consumers and changing demographics. If you stick to the status quo, you're dead!

WA: Wine Australia has been running a domestic market program for the past two years, focusing on initiatives to engage the wine trade, media and consumers through events and educational programs. Our focus is on working with the 'gatekeepers' of the industry to 'influence the influencers', nurturing an evolution of Australian wine awareness and opinion. We attempt to direct the limited resources we have into initiatives that deliver the best return on investment for our levy payers and industry partners, such as Aussie Wine Month – the biggest Australian wine celebration in the country and the major 'call to arms' of the Australian wine industry. It generates hundreds of media mentions for events and Australian wines across newspapers, magazines, radio, television and online channels and creates a lot of positive conversations about Australian wine through social media chatter.

Education is one of the key cornerstones of Wine Australia's market development strategy. Our One Day Wine Schools for the on and off trade are the key component of this.

XB: Not unlike other wine producing countries, Australian wine marketing seems to be driven by brands, varieties (Shiraz, Sauvignon Blanc, etc...), the personality of the winemaker (this is also the case in Bordeaux...) and regional style (Barossa Shiraz, Mornington Pinot, etc...). They can still be considered as the main keys to the domestic market. However, the winemakers and grapegrowers start talking more about individual sites and vineyards, and "single vineyard" wines are marketed as top end wines in each range, following what has been done in Europe for ever, and in the US for a long time. Therefore, it is fair to say that all is done to market wine domestically, but it is also a fact that the offer is very varied with much more competition than ten years ago, which makes it harder to play the game.

Q: If our wine is as good as everyone says do you think there is a fundamental problem with our marketing?

SG: Yes. But part of that trouble is that as an SME winery you are so busy with everything else you have to do – by the time it comes to 'past the gate' there often isn't any time left in the day.

I think the biggest challenge (and opportunity) is to develop new routes to market – as the major routes are the ones that most SME cannot access.

SM: Australian wines are consistently of high quality but quality isn't everything when building powerful brands and giving the consumer what they want. Consumers today expect every bottle to not only be of excellent quality but you also have to invest in your brands and develop a strong and differentiated proposition to capture your consumers' imagination, and ensure they select an Australian wine.

WA: We have to collectively focus on positioning ourselves for sustainable growth ahead by making the necessary changes that are within our influence.

The reality is we are constrained by lack of marketing dollars. Many of the world's wine producing countries receive substantial funding from their governments to promote their wines around the world, which we cannot compete with. However, I don't think it's as simple as saying marketing is the problem. There is a combination of factors.

Firstly, we have to get our distribution right so we actually get our wines on the world's wine lists and retail shelves. It doesn't matter how good your wines are, if people can't buy them.

Secondly, we have to continue to influence the influencers in all our markets. Wine Australia's focus worldwide is on engaging and educating key opinion leaders including sommeliers, retailers, distributors, importers, media, food and beverage professionals from hotel chains and buyers about the quality, diversity and value of Australian wine.

Thirdly, we have to continue to evolve the positioning of Australian wine. The quality of our wines has never been higher. We have always had a sector that innovates, invests in research and pushes the quality parameters. Supporting this with the long term, consistent investment in activities that build the reputation of the category and that assist producers' position their wines at higher prices is the key.

And finally, we have to move the promotion of wine into the lifestyle sector and connect it with Australian food, lifestyle and experience. Tourism Australia's Restaurant Australia campaign will provide a unique opportunity for our wine industry to move the promotion of

wine into the lifestyle sector and to engage consumers on a scale that's never before been possible.

XB: Australian super premium wineries are doing a great job to promote their wines, each with their own message and story. The Australian wine industry has always been about innovation. In the 1980s and 1990s, the Australian wine industry has been very innovative in its winemaking techniques, leading the way internationally. It can now be safely assumed that the rest of the world, especially the old world, are leading the way in design of new winemaking techniques. Australian winemakers and grapegrowers - are working more and more on promoting their terroirs, i.e. soils, climate and regions. Marketing of Australian wine is evolving naturally in the right direction, but it is obvious that a lot remains to be done to secure Australia's place as one of the leading producers of fine wine in the world. ▶



Xavier Bizot – vigneron and importer

XAVIER Bizot gave up a career in corporate law in France to become a winemaker in Australia. It might seem a radical redirection but his family also owns Bollinger in France, with his late father a former chairman. So this scion of centuries of viticultural and winemaking tradition, hailing from Ay, in the heart of Champagne, has brought his heritage and DNA destiny to South Australia. In addition to his winery he and wife Lucy established Terroir Selections in 2006 with the aim of importing a personal selection of French fine wines for sale to top restaurants and wine retailers. Bizot says "yes, right now we have a glut in Australia but I see it as a market issue, and it will self-regulate. The most important thing is we don't want to get out of the glut at the cheap end."



Steve Goodman – industry researcher

DR STEVE Goodman is the program director-higher degrees by research and a senior lecturer at the University of Adelaide Business School. He is an active researcher in consumer choice and business decision making in the wine supply chain context. In 2006 he was awarded a GWRDC grant to map the influences of consumer choice for wine selection, a research project in conjunction with the Wine Marketing Group at UniSA and collaborators in 11 other countries. Since he has been studying the decision influencers along the wine supply chain in Australia, China and the US, the outcomes of which are currently appearing in *Grapegrower & Winemaker*.

Q: Are key peak industry groups such as Wine Australia doing enough?

SG: In one word yes – they provide a wealth of information, research insights – but at the end of the day it is up to how a winery runs, what its model is like and how it executes its marketing.

I think that in many cases peak bodies are (wrongly) expected to make it all happen.

SM: We need a long-term strategy for brand building and a longer term approach. We are starting to see positive signs emerging particularly with the launch of the first Wine Australia Savour event last September and their plans to execute more in-market, influencer activities in key global markets to support the positioning of “Australia.”

WA: Naturally, we believe we are performing well and delivering a great service to industry and positive feedback regarding activities such as Savour Australia 2013 is gratifying.

But there is always room for

improvement and we are always open to hear from industry as to what we can do to enhance our services. Wine Australia focuses its efforts and resources on initiatives and programs that deliver the most value for our industry partners and levy payers but needs to live within it means. To put it in perspective, Wine Australia receives approximately \$5.5 million annually through levies to fund market development activities. This levy funds staff and overheads in our offices (Adelaide, Sydney, Shanghai, London, Washington DC) and remote staff in Vancouver, who deliver market intelligence, education, PR and communications.

In addition, we receive approximately \$2m a year in voluntary industry funding from participants in our user-pays marketing activities across all markets which are delivered on a cost recovery basis. However, Wine Australia’s market funding pales when compared with our key European competitors. For example, in 2013 Italy received €102 million, France €58 million, Spain €40 million, Portugal €14 million and Greece €4 million.

Our objective is to evolve the position of the Australian wine category towards a stronger perception of quality, diversity and suitability to a modern lifestyle. We do this through:

1. Educational programs.
2. Telling good news stories about Australian wine.
3. Aligning Australian wine with a modern epicurean lifestyle in partnership with Tourism Australia and its Restaurant Australia campaign.
4. Displaying and promoting a diverse portfolio of Australian wines at major global trade events.
5. Levering partnerships with government agencies, industry marketing boards, wine industry bodies and wine education bodies.

We would welcome the opportunity to deliver more services to industry but need funding to do so.

XB: Key peak industry groups are doing all they can within the frame of their respective strategies. In the end, the success of an industry lies on the hands of the grape and wine producers and their capacity to establish a strategy to promote adequately their wines. Key peak industry groups have to acknowledge that the Australian wine industry, like the wine industries from all other countries, is not a uniform body corporate. In particular, it offers branded wines, i.e. wines that are constructed for the market both in their quality and their prices, and fine wines

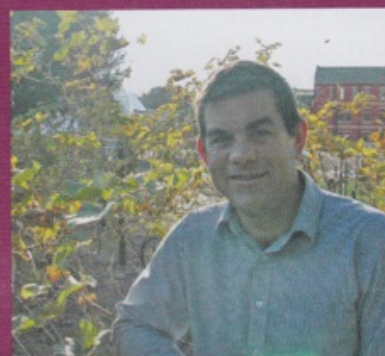
that are handcrafted by winemakers and grapegrowers. Fine wines require specific education to introduce them into the market; they ultimately shape the identity of Australian wines both in Australia and overseas for the generations to come. A lot has been done by industry bodies such as Wine Australia to re-focus on Australian fine wine; it is a work in progress - and a never ending task.

Q: Do you think the future of Australia’s SME wineries is in the hands of the marketing/advertising campaigns of the Big Four?

SG: No – I think it is in their hands to have a model that sees them producing wine the market wants at a price the market will pay – and not expecting the market to ‘invest’ in supporting a lifestyle.

Make wines the market will want – not wines because you like working with umpteen different varieties.

SM: If we build the reputation and attitudes towards Australian wine brands, everybody wins! It’s a question of brand building in the markets that deliver positive results for Australian wines.



Andreas Clark – peak industry group boss

ANDREAS Clark was appointed acting chief executive of Wine Australia in October last year in addition to his current, and ongoing, role as Wine Australia’s chief operating officer – a position he has held since September 2012.

He is also the executive officer for the Geographical Indications Committee and the Registrar of Protected Geographical Indications and Other Terms.

Clark has been with the Wine Australia since June 2006 and previously held a number of roles within the organisation. Before joining Wine Australia, Clark held positions with the Department of Foreign Affairs and Trade in Canberra and Brunei.

WA: The large wine companies tend to have dedicated marketing budgets and are able to perhaps undertake more above the line promotional activities such as advertising, compared to smaller wine producers, which might make their branding more visible. SME wineries can often benefit from a halo effect.

However, wine producers of all size have a role to play in promoting their products and should look at how they promote their wines and get them into the hands of consumers.

It's about getting the basics right. An up to date website that enables the ability to purchase wines online is a must. Using social media channels to create conversations with customers is also becoming important. These approaches combined with the traditional wine clubs and relationship building with the wine trade and media are essential for building a strong customer base.

XB: The Big Four have more financial power to promote their wines, and this gives them a head start in their marketing/advertising campaigns. However, they do not control how the SME want to promote their wines. The main difficulty for SMEs lies in the fact

that the two supermarket chains (Coles and Woolworths) control a large share of the off-trade market, and it is therefore difficult, although not impossible, for the SME wineries to get their wines across to the customers with the right message.

Q: What role does the WET have in domestic marketing – is the rebate making SME wineries lazy?

SG: Lazy is too strong – in fact wrong. I think what most wineries have done is to not take advantage of what it could offer them.

As a smaller winery it is an opportunity to be able to price wine at a point it will sell, rather than simply pricing on the fact it costs more to make as we are small and don't make much.

That itself is a bit much to ask the market to support your interest – although that said you also need to have a look at your business model and ensure you can sell wine for more than it costs to make – this is something a great deal of SME wineries cannot do.

I think the years of the WET should have been used as a transition time for wineries to adjust their business models

where they could produce and sell at a point where money was made and consumers would pay the price asked – I think SME wineries have missed this opportunity.

SM: The WET rebate is a damaging subsidy that negatively impacts the profitability and productivity of the Australian wine industry. The rebate should be scrapped with the funds reallocated to better support the international profile and competitiveness of Australian wine.

WA: It is not for WFA to comment on the role of WET and the WET rebate and its impact on the market, however, you have to remember many of our small to medium producers are growing their own grapes, making their own wines and running their own businesses so they have to juggle multiple tasks, including marketing. I think as an industry we need to look at how we become savvier at promoting ourselves. And as mentioned earlier, wine producers of all sizes need to get the basics right including an up to date website with the ability to purchase wines, an up to date customer database and social media platforms. ▶

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Simon Marton – big gun with the biggest player

TREASURY Wine Estate's chief marketing officer Simon Marton has more than 18 years' experience in the global drinks industry. In that time he has held a variety of senior roles with a focus on international brand-building and strategic marketing. Immediately prior to his appointment as TWE's chief marketing officer, Marton held the post of managing director for TWE's Penfolds and Wolf Blass brand business units, giving him a strong hands-on link to some of Australia's premier wine brands. He was previously marketing director for TWE's Australia-New Zealand (ANZ) division, responsible for all its portfolio, brand and category marketing strategy and execution.

XB: Every country has its own way of taxing alcohol, and there is no better or worse system; and it is common knowledge that changes in taxes rarely end up in a reduction of the Treasury's income. The WET rebate benefits all companies, big and small, up to the maximum threshold, and all producers are entitled to receive the same nominal amount. It is a sales tax that is actually borne by the customer, even if the producers pay it.

Q: What do you think is the answer if you had the final say?

SG: I honestly wish I had one. I don't think there is any one thing but there is a need for businesses to be established which focus on the demand of the market (varieties, price points) and a need to invest 'post the gate' rather than a focus on the technical side alone.

SM: Premium, quality wines backed by consistent consumer marketing that builds brands that fulfil consumer needs.

WA: Sustainable profitability continues to be a challenge for the wine sector – an issue shared by all in the value chain. Wine Australia's focus is on long term, consistent investment in activities that build the reputation of the category in our major markets including Australia and get more quality Australian wines onto the world's retail shelves and wines lists. The wine industry is working collectively to ensure there is greater awareness around Australia and the

world of the quality, diversity and regionality of Australian wine, to help improve returns for grape growers, winemakers and all in the value chain.

XB: I assume the question is how will we secure the success of our Australian wine industry in the future?

The success of an industry is generally measured by its capacity to export and to challenge competitors from other countries. Given our high cost of labour, the Australian wine industry cannot build its future exclusively on competitive price points and marketed/advertised brands. It has to reinforce its status overseas as a fine wine producer. Australia has great potential to produce fine wines, but this still remains a well-kept secret to a large extent (sometimes even to the producers themselves). There is now a strong demand in the world for fine wine, looking at the prices fetched by top end Bordeaux and Burgundies. Winemakers, grapegrowers and industry suppliers should grab the opportunity and build a fine wine strategy for the years to come. Hugh Johnson concludes the Australian chapter of his excellent first edition of *The Story of Wine* as follows: "Australia is the France of the southern hemisphere: there seems to be no limit to her potential (enormously reinforced by modern technology) for producing ideally balanced, delicate wine very much in the French style (though with original touches of her own). But potential alone has never been enough. Fine wine has only been made at moments in history when the market has asked for it." **GW**

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