

Wine Business Solutions



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# **The Wine Paper 15**

**December 2010**

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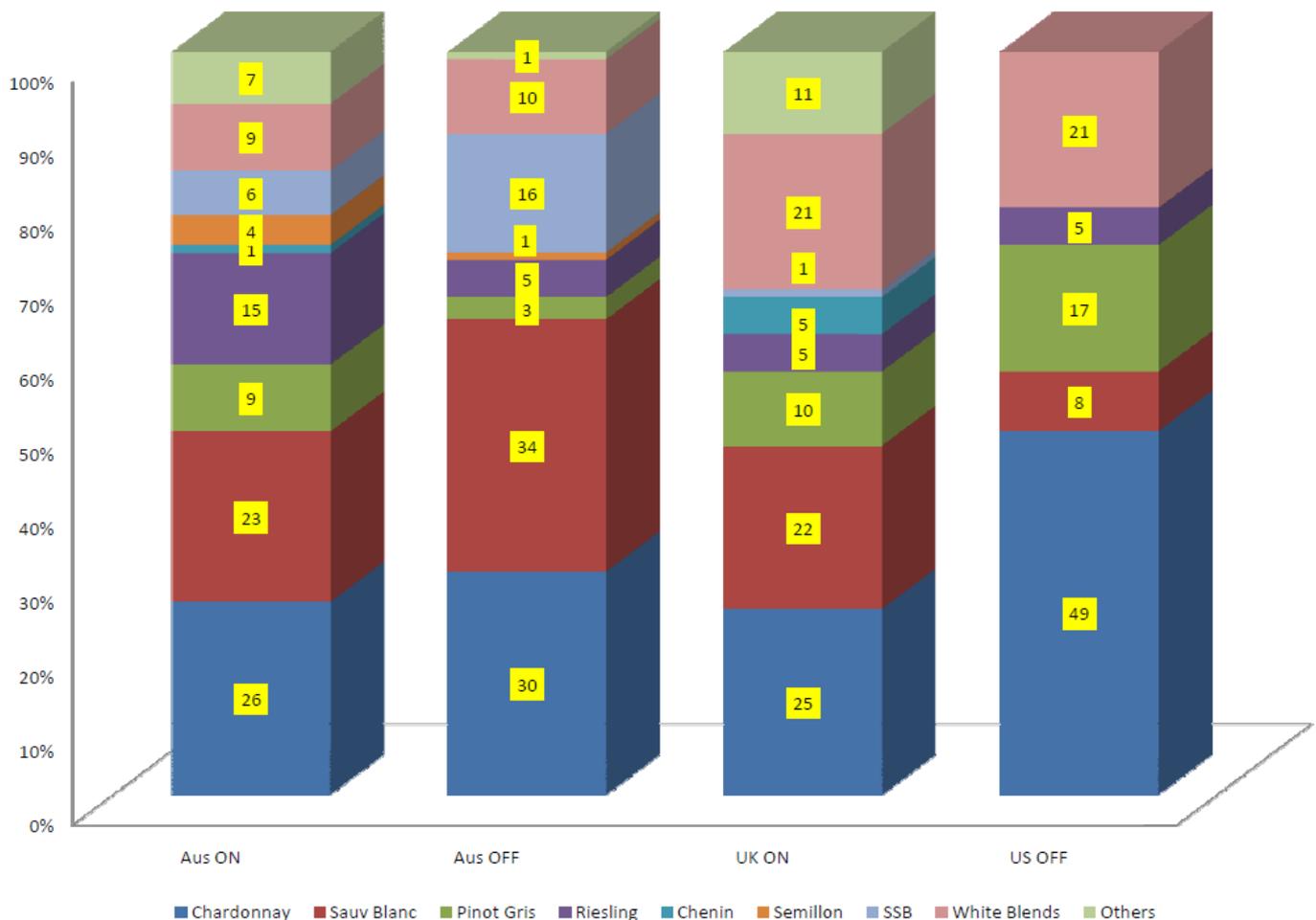
## WHITE WINES

Everywhere I go, wine business owners ask me about “the next big thing” - what they should plant, what should they produce and how are markets changing. There is an absolute stack of relevant information that washes through our inboxes, gets discussed in online forums and is published in industry magazines. The answers are discoverable with some effort and yet I’m constantly hearing prominent industry figures leading wine producers down rabbit holes as a result of only seeing part of the picture.

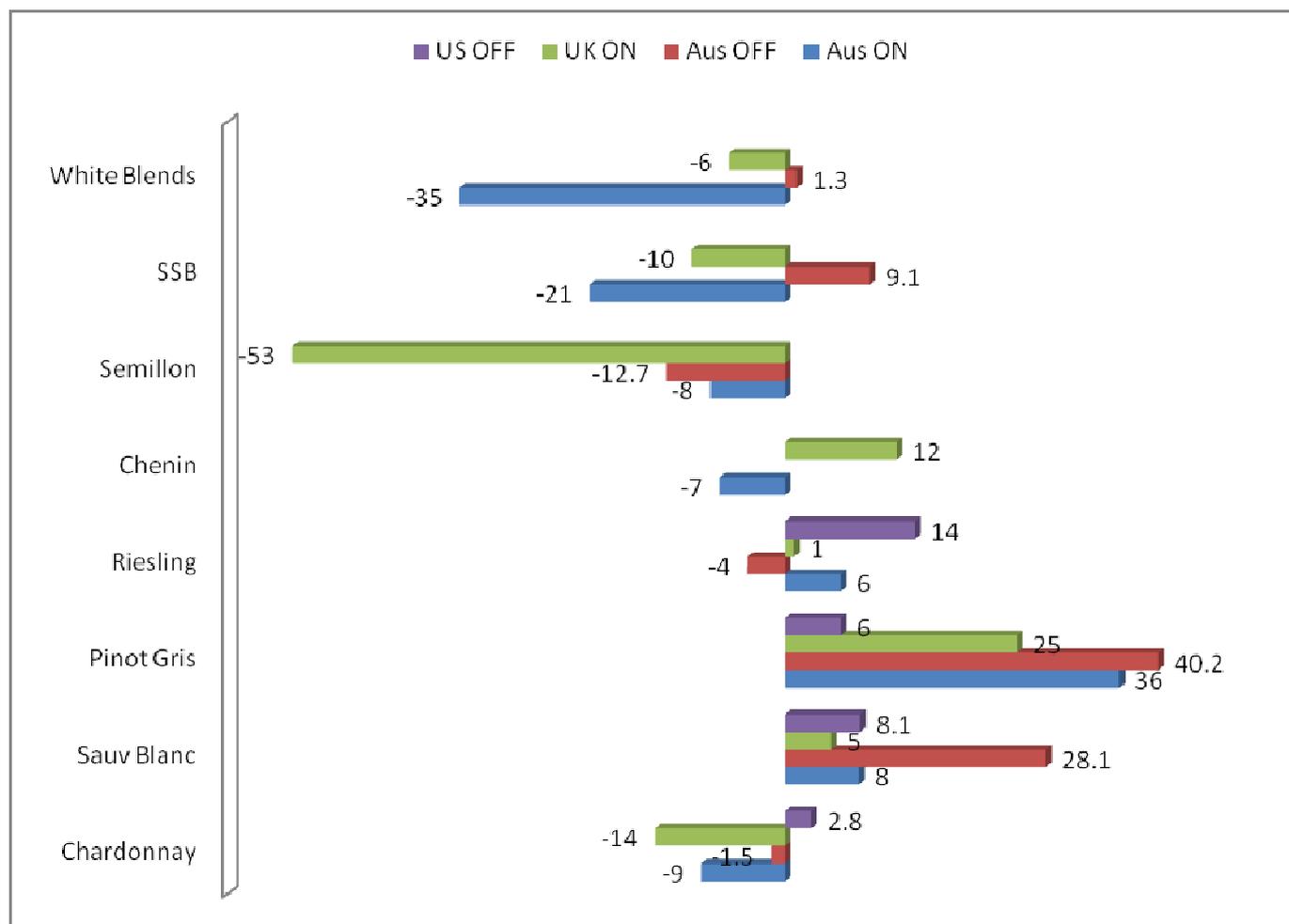
It is therefore high time, I believe, to set the record straight as to what is driving consumer demand, which trends are local and which are global. We also need to look at which trends are worth pursuing based upon their stage of development and likely commercial outcomes.

In order to do that, I’ll present findings from four sets of data – Australia Off-Premise to June 2010, the US Off-Premise to October 2010 as well as our Wine On-Premise UK and Australia 2010 research.

**Figure One – Share of white varietals across four major market sectors**



**Figure Two – Percentage change in market share held by varietals vs 12 months ago.**



**Chardonnay** is strong but struggling everywhere except the US where it holds just under half the market for white wine. In the benchmark UK On-Premise, a huge, mature market that is (almost) free from bias, Chardonnay is around a quarter of the white wine listings as it is in most major markets.

**Sauvignon Blanc** is strong and growing in all markets. It can and most likely will hold a quarter of white wine listings in most markets. We could therefore project that Sauvignon Blanc might have a way to run yet in the US, for example, given that it only has 8% share currently.

**Pinot Gris** is the fastest growing white varietal globally. It seems likely that it will hold 10% share or more in most markets. In the US, it holds 17%.

**Riesling** has 5% of The Australian Off-Premise, The UK On-Premise and US Off-Premise markets. It is currently enjoying a fashion boost in the US and is well represented on Australian wine lists but if current styles are maintained, 5% globally would seem to be about where it will stay in most markets. Dry Riesling is a style with a limited, if enthusiastic, following.

**Chenin Blanc** is very successful in the UK and Netherlands but not well known in other markets. Good growth is possible at premium price points if producers focus on site selection, yield and vine age.

**Semillon Sauvignon Blanc** blends may have started life in Bordeaux but they are a virtually unknown concept outside of Australia. Inside Australia they ride on the back of the popularity of (and are perhaps sometimes confused with) Sauvignon Blanc in the Off-Trade but are losing share on Australian wine lists.

**White Blends** are a massive market sector. In Australia, they're disappearing fast from wine lists as Classic Dry White style blends are now being sold at price points and of a quality that, by and large, makes them uninteresting to restaurants. In the US, blended whites are almost exclusively cheap wine but in Europe, white blends presents a world of possibility.

**Other white varietals** worth keeping an eye on include Gruner Veltliner (up 146% in the UK On-Premise), Gewürztraminer which is making a comeback in the On-Premise in both Australia (up 25%) and the UK (up 41%) and Albariño which may not be a new story but is still up 20% in the UK on a year ago. Viognier (up 80%) is finally starting to work in the UK On-Premise just not for New World producers – yet...

**Figure Three – Growth at premium price points for white varietals – Source Nielsen Aus. June 2010**

		9L CASES	VOL % GROWTH YA	PRICE PER UNIT (\$)	NUMBER OF SKU'S	Cases per SKU
Chardonnay	PRICE \$20-\$30	43,992	34.3	23.08	345	128
	PRICE > \$30	13,911	11.9	40.88	199	70
Riesling	PRICE \$20-\$30	22,778.0	29.4	22.28	181	126
	PRICE > \$30	1,781.0	1.2	37.49	83	21
Sauv Blanc	PRICE \$20-\$30	84,833.0	14.0	22.29	214	396
	PRICE > \$30	8,777.0	28.9	35.17	23	382
SSB	PRICE \$20-\$30	21,469.0	-5.5	22.66	59	364
	PRICE > \$30	879.0	8.8	32.12	9	98
Semillon	PRICE \$20-\$30	5,908.0	12.7	22.39	33	179
	PRICE > \$30	517.0	27.4	44.60	10	52
Verdelho	PRICE \$20-\$30	1,086.0	-22.5	22.12	11	99
	PRICE > \$30	NA	-66.7	54.99	1	0
CDW	PRICE \$20-\$30	182.0	-34.6	21.61	6	30
	PRICE > \$30	24.0	1.7	185.92	13	2
Pinot Gris	PRICE \$20-\$30	18,609.0	48.1	22.30	138	135
	PRICE > \$30	440.0	32.8	34.60	40	11

## What can we learn from all this?

1. Kath and Kim did not kill Chardonnay. Barack Obama does not know Kath or Kim and I'm pretty sure that not even John Travolta has met them.
2. Chardonnay is not actually dead, it's just sleeping rather heavily.
3. Kath and Kim do not know Jancis, Michael or James and even if they did, they wouldn't give a rat's what they thought. The difference now is that where once cardigan wearers would read Michael (Fridjhon), Bob (Campbell) and James (Halliday) after church on Sunday and take it as gospel, now, more and more people (their wives and daughters particularly) are asking the question – "Why am I drinking this stuff if it tastes like acidic cardboard?"
4. You can not wish Sauvignon Blanc away. Every Australian winemaker that I meet talks of the coming collapse of Sauvignon Blanc. It's simply not happening, not even starting. Some cite Nielsen saying that there has been a resurgence in premium Chardonnay in Australia, the implication being that this now signals the end for Sauvignon Blanc. Well yes there has but as per figure three, all premium white varieties have grown during the last year. The difference for Chardonnay and Riesling, however, is that growth at \$20-30 is largely being fuelled by more expensive wines being pushed down in price. Wines over \$30 per bottle are not growing as strongly. For Sauvignon Blanc and Pinot Gris, however, as demand is strong across the board, growth is happening at all price points.

If you had the choice of launching a Pinot Gris or a Sauvignon Blanc at \$32 a bottle, however, as you can plainly see, there really is no choice. The average \$30 plus Sauvignon is realising 40 times the sales volume of your average Pinot Gris at that price point and 6 times that of Chardonnay.

5. You can not beat Sauvignon Blanc by making Chardonnay taste like warm climate Sauvignon Blanc. To readers outside of Australia this must sound insane but this is what a good number of the show judging and wine critic community are bullying Australian winemakers into doing. They are rewarding wines that are lean, hard, acidic and un-giving, falsely believing that that is; a) what people want and; b) what Sauvignon Blanc would and should taste like without its distinctive aromatics.

If Chablis is where the leaders of this movement think this is heading, it is worth noting that in the last year, Chablis listings on UK wine lists have halved. Not that there's anything wrong with good Chablis. Like most of you, I love them. It's just too easy to make a bad one, that's all.

6. You can not fix dry, warm climate Riesling and Semillon with better “marketing”. Nor can you replace them with Arneis, Fiano or Colombard flipping Trebbiano. Most people hate dry, fruitless, hard, acidic, oxidised-looking white wines. They love full, generous, round, bright, sweet tasting (but not actually sweet) things. It’s that simple. Either that or the “nice” numbing neutrality of your average Pinot Grigio or Chenin Blanc.

### **So what are the answers ?**

At this stage, for Australia it has to be Chardonnay. Crisp, full, rich, round, ripe Chardonnay grown in a cool location without overbearing wood. Luscious wine for slurping, in other words. If someone gave that a name and a set of rules that people could be trusted to abide by for wines sold at around \$US20-30 per bottle then therein lies massive possibility. At the top end of the Chardonnay scale, there are already wines that, without much further refinement, can compete with the best in the world. Again, these wines need marketing as a single idea backed by strict quality standards.

Not being so resistant to residual sugar, particularly where cooler climate Riesling and young Semillon are concerned is also going to be vital for Australia producers. It is an idea however, that there is massive resistance to. Why anyone would continue to think that way after trying a half decent German Riesling, I simply can’t understand. Unless, of course, they’ve never tried good German Riesling...

Aromatic whites represent great opportunity for New Zealand. For Pinot Gris particularly, there almost needs to be a pulling back on the sweetness and concentration and the best producers are doing this now.

For South Africa, it’s time to get planting Pinot Gris, Gruner Veltliner and other aromatics in places like Elgin, Elim and Hermanus. Time also to start paying farmers not to rip out quality old vine Chenin that isn’t virus affected. Producers like Beaumont have shown just what is possible there.

Premium white blends are the 3<sup>rd</sup> biggest white wine segment in the UK On-Premise as well as in most markets in Europe. South African producers are just starting to pickup on this but the local English wine industry which is the fastest growing suppliers to this the worlds largest market for imported wine, are way out in front. The challenge, always, is to create an umbrella brand and market a style that consistently delivers quality. Without rules, it’s too easy for one weak offering to let the whole side down.

As to any new varietals, the key I believe, is to respect the soil and climatic conditions of the place were the vines do best and aim to match or better that in its new home.

**Pinto Noir** is strong and growing in every market. It's another cool climate, fleshy, sweeter flavoured wine style (generally) and people are voting with their feet on a global basis. That it only has 4% of the Australian Off-Premise reflects that it has a long way to run (and the types of outlets in Nielsen's sample.)

**Shiraz** is strong in Australia but weak abroad. This, I believe, is more of a short term marketing issue than a terminal problem. As discussed in [Wine Paper 14](#) which looked at what people are drinking in Canada instead as an example, it's not that people are walking away from the style but rather perceptions about Australian Shiraz created by certain producers. Shiraz can be made in a great many ways and winning back lost market share should be only a matter of fitting wine styles and the supporting marketing to the respective markets. Argentinean Malbec remains the biggest threat. It has doubled its listings in the last year in the UK On-Premise and is the fastest growing varietal in North America.

**Red Blends** at premium price points are not generally well understood by Americans but constitute a large portion of UK wine list real estate. Shiraz blends are performing well in the Australian market as are Northern Rhone (Shiraz dominated) wines in the UK On-Premise.

**Cabernet Sauvignon** is a nightmare category in the UK On-Premise. It is the most fragmented of any major wine style. No region of country has any kind of dominance. In the US, it remains strong, expensive and growing. Breaking out of pigeon holing as a Shiraz producer will be challenging for Australia. South Africa has a clean slate and its best Cabernet producers are now working hard on this opportunity.

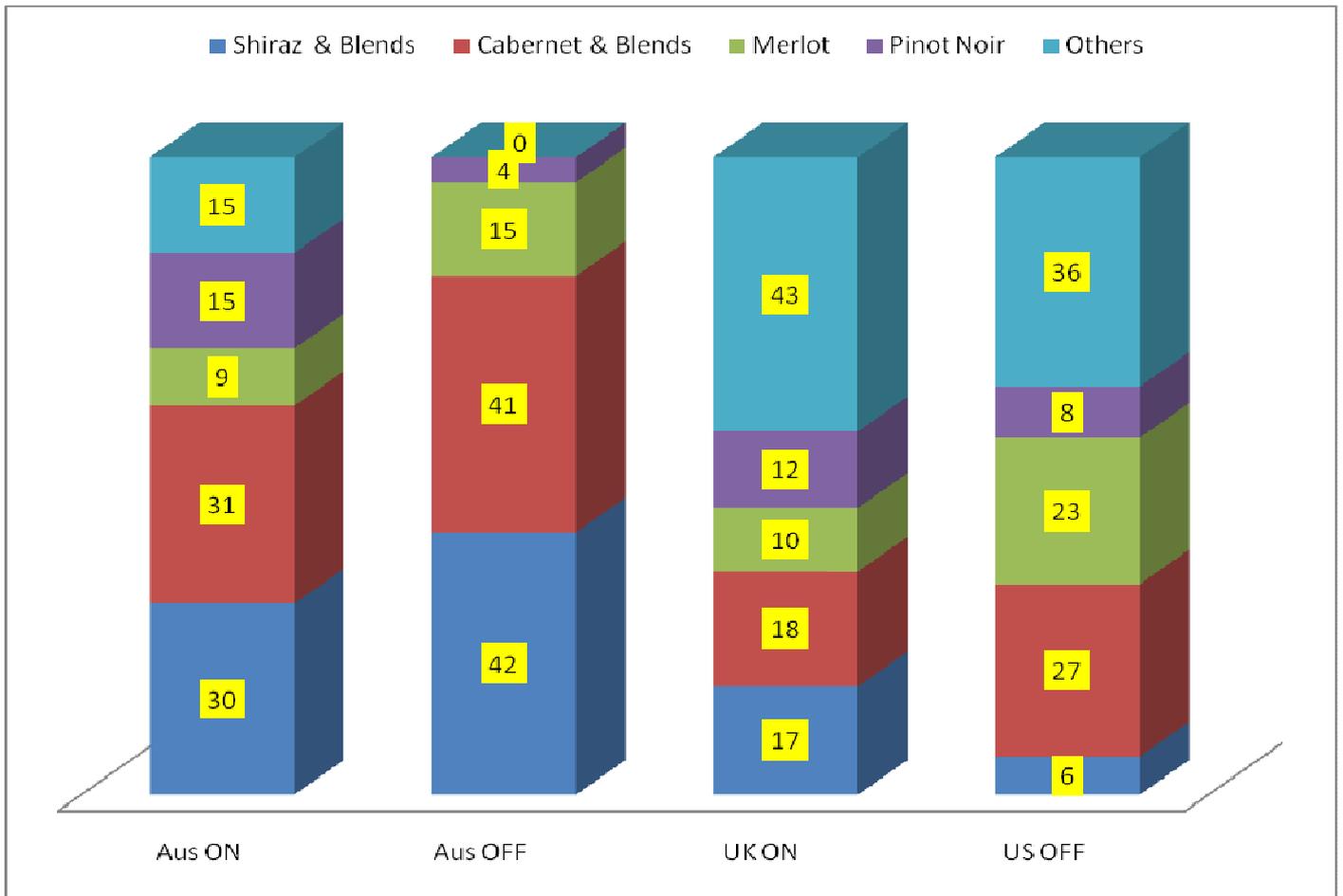
**Cabernet Blends** have suffered in the UK On-Premise as a result of restaurants delisting high priced Bordeaux following the GFC. Bordeaux remains, however, the most listed red wine region.

**Tempranillo and Sangiovese** (and Grenache in some markets) are seeing a big kick up, not just because of fashion but also because of the results being achieved through some of the new clones now available in Australia and New Zealand.

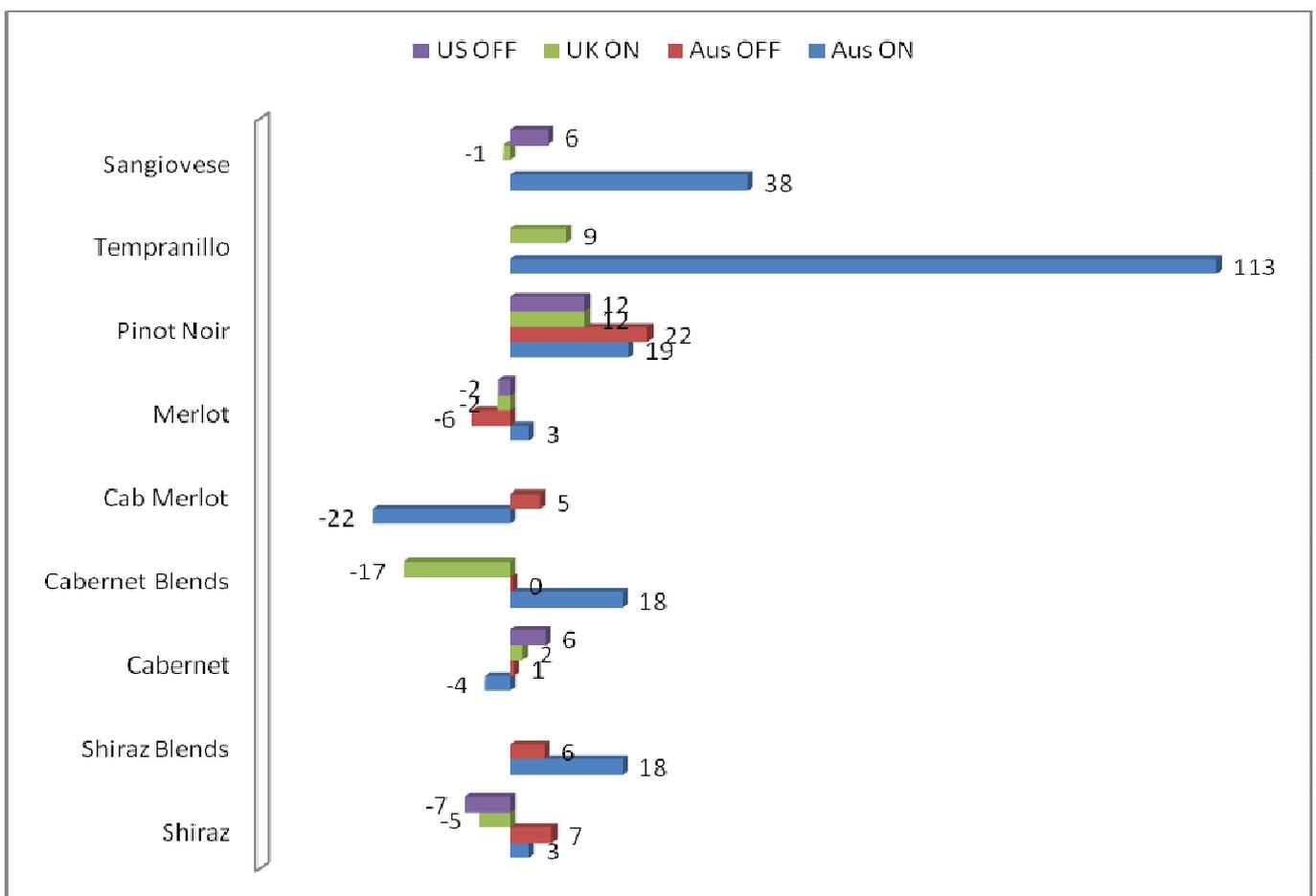
### **What can we learn from this?**

Same story again. People want sweet tasting, round and generous flavours. Blends of Shiraz and Grenache, cool climate Shiraz, new style Tempranillo, Barbera, Sangiovese and Pinot Noir, most of all, have this. Shiraz Viognier often goes too far. Generally speaking, Cabernet based wines and Merlot more so, are suffering as a result.

**Figure Four – Share of selected red varietals across four major market sectors**



**Figure Five – Percentage change in market share held by varietals vs 12 months ago.**



This however is where we are now, not where the market will ultimately end up. Palates mature. There are much bigger opportunities for Australia and South Africa if winemakers can start to make medium bodied, elegant, savoury, complex wines that work with food.

Then, rather than looking to the Rhone, Rioja and Chianti for these wine styles, Europeans (and Australians) might start to buy a “better” New World version. UK restaurants might then change the miserable 9% of Australian wine they list now to more like the 20% that Australia has in the UK Off-Premise.

Blends are but one of many ways that Australian and South African producers can work in more complexity and interest into red wines. Achieving elegance requires optimising fruit quality, picking at the right ripeness levels, appropriate winemaking and wood handling - the whole shebang.

In order to understand these wines however, winemakers must first of all drink them with food. This gets expensive for South Africans but if Australian winemakers continue making pacts not to drink imported wine then there is not much chance that they will “get it” either.

At the same time, this represents a huge risk to New Zealand. It would be ever so easy for UK and Australian wine critics to turn “Pure” and “Singular” into “One Dimensional” and “Boring” in the same way they have attacked warm climate Australian reds. Not that this accurately reflects what is actually happening. It’s just that when these ideas get reflected in national branding and in the wine making styles of certain leading producers, it makes the very “lean and clean” image of New Zealand wine vulnerable to a more earthy, complex idea of red (and white) wine that is better suited to sophisticated food.

The winner will be the country that manages both of these ideas (flavour for the Aspirational drinker and complexity for the Wine Appreciator) optimally and the great thing is, it really is not that hard to do. Seeing the opportunity clearly seems to be the biggest challenge. Developing a set of rules and sticking to them will be the difference in winning the race.

With airfares at an all time low and travel relatively inexpensive, now really is the time to be thinking about that European trip next year.

A few days spent judging at the International Wine Challenge in London, a day at Vin Expo or VinItaly and an afternoon in the Northern Rhone or Priorato might just be the best investment you can make in your young winemaker...

Rose may be just 2% of Australian wine listings but this figure is more than double what it was a year ago. The same is happened in the UK but in that market, Rose now represents more than 8% of all On-Premise wine listings. The Veneto, the Languedoc and Provence are cleaning up, however, whilst this “Pink Wine Boom” goes largely ignored by Southern Hemisphere producers. In Australia, De Bortoli is leading the charge to promote Rose as a sophisticated adult drink. It’s not a message that needs to be sold to UK restaurateurs. It simply needs Southern Hemisphere producers to show up with the goods. According to Nielsen, Rose over \$30 a bottle grew 68% in Australia in the last year off a very small base.

Champagne has taken a hammering internationally as a result of the GFC and Sparkling wine has picked up the slack. It is Prosecco that has been the biggest beneficiary in Europe, however, once again demonstrating that softer, rounder more apparently sweet (if not necessarily actually sweeter) styles win out. Cava and new world sparkling styles have been hit hard in the UK On-Premise as a result.

According to Nielsen Australia, Moscato grew by 67% to June 2010, is now a bigger category than Riesling and outsells Semillon by nearly 10 to one. Added to that, when you apply that “cases per SKU” formula that we did to white wines in Figure 3, it comes out at a whopping 3700 cases. Given the low cost of production, it would seem very tempting to rush out and make one. But not so fast....

\$20-30 Moscato is down 40% on a year ago and \$30 plus Moscato down 70%, again off the very small base that is Nielsen’s read of fine wine. So where is all that growth coming from? Moscato priced below \$7 per bottle grew 800% after Lindemans managed to source some fruit from South Africa and Moscato under \$10 doubled in volume led by Constellation.

So there is not cure yet, it seems, for the 25 year old public listed company brand manager who, realising that she has the life expectancy of a brown apple moth, smashes a promising new wine category before it has even had a chance to stretch its legs.

With the release of Rosemount Botanicals, it might seem that the same has happened to flavoured wines. It’s a blow but I don’t think a knockout. I still believe that the greatest opportunity of all is to look at what we can alter, add, coferment and or otherwise work into wine in order to create something vastly more interesting, enjoyable and food friendly than most of today’s wine.

My prediction - This will be as the MP3 to the CD.

# The “Top Ten Tips” for Building Better Wine Businesses.

*(From Wine Business Solutions article published in Wine Business Magazine, March 2007)*

**One** - Start by understanding your customer value proposition. Only part of this stems from your company’s unique heritage and / or personality. To be successful, this needs to be strongly linked to what your customers ultimately want from the experience of your brands. There is some excellent research on this that is publicly available. Getting it right is therefore not out of the reach of small companies.

**Two** - Once you understand what customers value most, you can then remove what they don’t want (thereby reducing costs and freeing up cash), focus your communication on what they do want (often at no additional cost), differentiate your company on the basis of fulfilling customer needs more accurately than any competitor (again often at no extra cost) and raise prices (because your offering is more highly valued)

**Three** - Always be asking the question – “If I could start with a blank canvas today – what would our wine business look like?” It’s all too easy to let existing assets, existing product lines and existing ways of doing things blind us to what it is that our consumers value most. Often it’s simplicity. Complexity usually adds to costs and often only serves to confuse customers. Retaining unnecessary or irrelevant product lines, assets or business processes is the worst contributor.

**Four** - Make everyone in the company accountable for securing customer preference. This is not just the job of marketing but of everyone in the company, the owner most particularly. Make this the focus of the way every employee innovates their job processes on a daily basis.

**Five** - Invest in relationships. This is particularly so with major distribution partners. Make sure sufficient time and money is invested before demanding results. Be prepared to invest up front in bringing them to your home base and entertaining them in order to build enduring friendships.

**Six** - Make all employees champions for profit. Develop a culture of honesty around net revenue. Make sure everyone knows the actual price achieved net of all discounts, rebates, bonus stock and anything else that might otherwise cloud the true profit picture. Keep them focused on reducing costs but let them know that a percentage increase in wine company revenue is, on average, twice as effective as the same percentage decrease in the cost of goods sold and 3-4 times as effective as the same percentage saving in operating expenses.

**Seven** - Optimise your pricing mix. Focus first on selling more, higher margin product in high value markets to high value customers. Beware of people in love with “big volume”. Big numbers make for big stories but often mean a lot of running around for no additional profit.

**Eight** - Build better business intelligence gathering systems – most companies are good at monitoring their own press. Very few have effective systems in place to monitor competitors, track changes in consumer preferences and turn customer feedback into customer value added.

**Nine** - Build 5-10 year Strategic Plans, forecast rolling 12 month budgets, link them to the most relevant KPIs and tie remuneration to these where ever possible. Everybody knows they should do this. Few do. The difference in performance of companies that do is enormous.

**Ten** - Watch your cashflow – building a cashflow forecast is a relatively easy exercise with the right software and some quality assistance. Some people survive years of losses but you can only run out of cash once. In a cash hungry business like wine – Cashflow is not just King but Oxygen.