

Wine Business Solutions



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# **The Wine Paper 6**

**April 2009**

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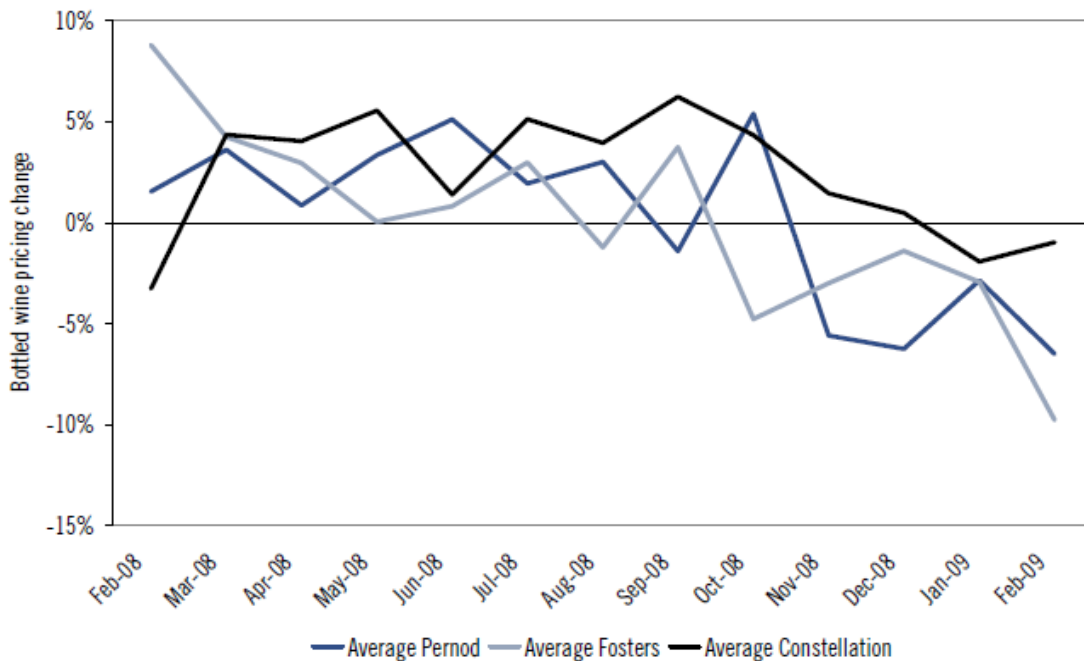


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## DOMESTIC WINE SALES - HOW BAD IS IT?

We've all seen the headlines – “Half price First Growth Bordeaux” and “Napa Cabernet sales come to a screeching halt” – but how bad are things for the wine business on an objective basis looking at the whole market?

In Australia, the big companies are definitely “going hard” on price promotion in a desperate fight to maintain market share.



Source: AC Nielsen, Citi Investment Research and Analysis

Note: pricing is based on company brands that constitute top 50 wines sold in Australia

It is interesting to note however, that the big three companies also “lead” the market in terms of loss of volume and value share. The overall market is only down by 2% for the 3 months to Feb '09 when compared to the same period a year earlier.

The value of sales is actually up 2.8% over the 12 months to Feb '09. As the big companies all lag behind this figure and make up a large proportion of the total market, we can only deduce that the medium sized companies have been able to grow the value of their sales significantly during this time.

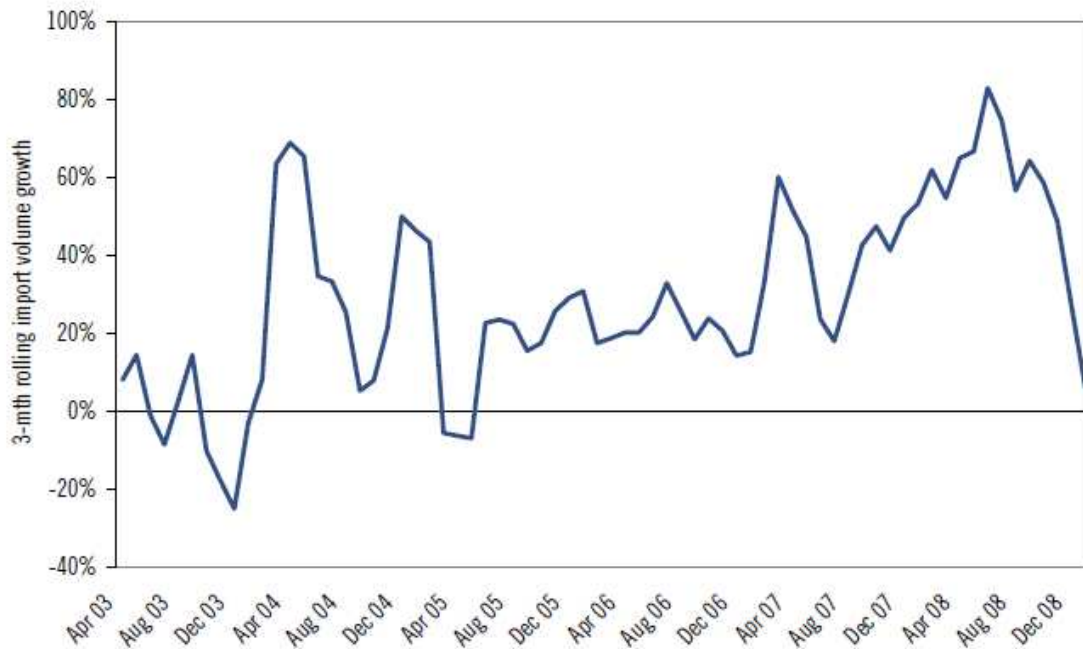
AC Nielsen - Off-trade wine data					
Volume	month ending (% chg YoY)			period ending...	
	Feb-09	Jan-09	Dec-08	3mth	12mth
Foster's	0.2%	-6.4%	-5.5%	-4.4%	-5.7%
Constellation	-6.8%	-2.5%	-15.4%	-8.4%	-3.1%
Pernod Ricard	15.3%	2.2%	6.3%	7.0%	-2.8%
De Bortoli	-10.6%	-4.7%	-4.3%	-6.4%	0.3%
<b>Total</b>	<b>-4.2%</b>	<b>-1.4%</b>	<b>-0.9%</b>	<b>-2.0%</b>	<b>-3.0%</b>
<b>Value</b>					
Foster's	0.5%	-1.9%	-2.5%	-1.6%	1.1%
Constellation	-9.3%	-7.6%	-11.0%	-9.4%	-5.0%
Pernod Ricard	7.2%	0.4%	2.6%	2.9%	-1.6%
De Bortoli	-14.0%	-3.5%	-4.0%	-6.9%	0.1%
<b>Total</b>	<b>-3.0%</b>	<b>1.9%</b>	<b>3.1%</b>	<b>1.0%</b>	<b>2.8%</b>
<b>Price/mix</b>					
Foster's	0.3%	4.5%	3.0%	2.8%	6.8%
Constellation	-2.5%	-5.1%	4.4%	-0.9%	-1.9%
Pernod Ricard	-8.1%	-1.8%	-3.7%	-4.1%	1.2%
De Bortoli	-3.3%	1.3%	0.3%	-0.5%	-0.2%
<b>Total</b>	<b>1.2%</b>	<b>3.3%</b>	<b>4.0%</b>	<b>3.1%</b>	<b>5.8%</b>

Source: AC Nielsen, Citi Investment Research and Analysis

Growth in the volume of imports has slowed to just 6% off a high of an incredible 83% for the 3 months ended June '08 when compared to the same 3 month period a year earlier.

This will be a big concern to Marlborough producers who have cut prices only to see sales slow at the same time – a not uncommon outcome. As we stressed in Wine Paper 5, discounting is definitely not the answer in a recession and as the examples of the big Australian companies and the Marlborough producers highlights, discounting can actually destroy perceived value leading to a drop in the volume of already unprofitable wine sales.

Imports are now over 13% of consumption in Australia compared to 9% a year ago. WBS's Wine On-Premise Australia research shows that 17% of all listings are imported wines so this trend could have some way to run yet.



Source: ABS, Citi Investment Research and Analysis

Sales of bottled white wine are holding up well whilst red wine has suffered somewhat during the last 12 months. This has more to do with changing consumer tastes than the effect of a recession. Sales of Australian white wine have suffered at the hands of wines from Marlborough.

ABS domestic wine - cat no. 8504.0

Volumes	month ending (% chg YoY)			period ending...	
	Jan-09	Dec-08	Nov-08	3mth	12mth
Bottled white	-7.8%	10.6%	-0.3%	1.8%	-0.2%
Cask white	-11.7%	-6.7%	-7.9%	-8.6%	-6.3%
Bottled red	-3.1%	12.2%	-5.3%	1.5%	-3.1%
Cask red	-3.6%	5.5%	12.5%	5.9%	2.2%
<b>Total</b>	<b>-6.9%</b>	<b>4.2%</b>	<b>-6.0%</b>	<b>-2.5%</b>	<b>-2.5%</b>

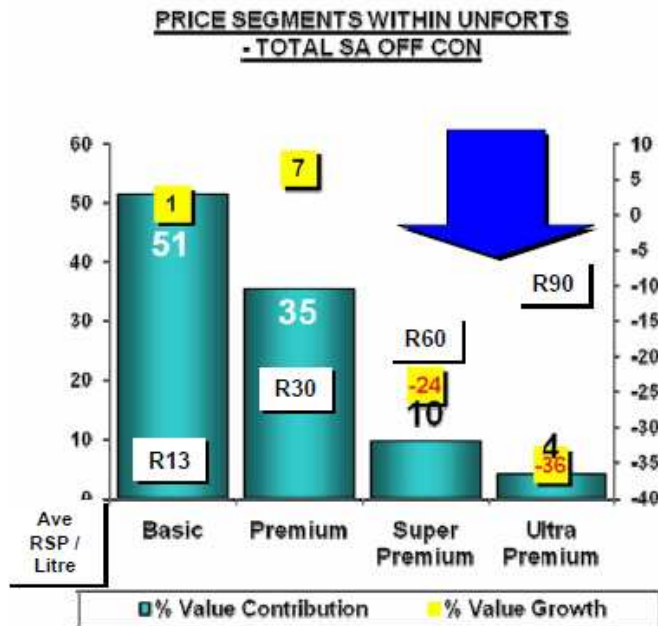
With the slow down in imports however, sales for Australian white and red bottled table wine have actually bounced back strongly in the last 3 months as the table on the following page clearly shows.



Source: ABS 8504.0, Citi Investment Research and Analysis

So on balance, the Australian domestic market is holding up well for small to medium producers and those NZ producers looking to hold their shelf and price position. Certainly the feedback we get from clients in high volume tourism regions seems to indicate that numbers and spend is at least steady with more people choosing to take local holiday breaks than to travel overseas.

In South Africa, overall sales are off by 1.2% but premium price points have been hammered...



Source – AC Nielsen

## AND EXPORTS?

“Brand Australia” and Australian wine shipments have taken a terrible pummeling, lately.

AWBC - wine export approval data					
Btl red volumes	month ending (% chg YoY)			period ending...	
	Feb-09	Jan-09	Dec-08	3mth	12mth
United States	1.9%	-2.4%	-27.5%	-13.2%	-13.0%
United Kingdom	-39.7%	-27.7%	-9.8%	-26.1%	-18.0%
Canada	-27.6%	-19.5%	13.1%	-13.4%	-10.9%
New Zealand	-17.1%	90.7%	27.2%	25.0%	-16.7%
<b>Total</b>	<b>-19.8%</b>	<b>-14.7%</b>	<b>-15.0%</b>	<b>-16.5%</b>	<b>-13.7%</b>
Btl white volumes					
United States	-10.9%	-14.3%	-24.4%	-18.1%	-3.9%
United Kingdom	-37.4%	-29.7%	0.1%	-23.8%	-14.1%
Canada	-26.0%	-16.4%	-10.9%	-19.0%	-14.3%
New Zealand	-6.5%	28.0%	-29.6%	-1.0%	-17.5%
<b>Total</b>	<b>-23.6%</b>	<b>-24.1%</b>	<b>-11.5%</b>	<b>-19.3%</b>	<b>-10.7%</b>
Bulk red volumes					
United States	831%	na	-2%	670%	109%
United Kingdom	178%	46%	74%	97%	17.1%
Germany	7%	387%	53%	80%	-19%
China	0%	114286%	250%	900%	-30%
<b>Total</b>	<b>87%</b>	<b>50%</b>	<b>30%</b>	<b>54%</b>	<b>-1%</b>
Bulk white volumes					
United States	1730%	13209%	835%	1710%	494%
United Kingdom	81%	-9%	71%	51%	17%
Germany	-32%	231%	112%	73%	-16%
New Zealand	0.8%	-97.9%	na	-94.0%	-92%
<b>Total</b>	<b>302%</b>	<b>244%</b>	<b>160%</b>	<b>229%</b>	<b>51%</b>

Source: AWBC, Citi Investment Research and Analysis

The principal metrics traditionally used to measure Australian wine export health (total exports by volume and value) have tended to mask significant weakness in both the US and UK markets. Sales of Australian wine with a retail value of more than \$US9 in the US market have actually been decreasing since 2000. In our just released “Wine On-Premise UK 2009” study, Australia has just 9% of wine listings compared to over 23% of the Off-Trade volume. Leading regions (in Australia) like the Hunter Valley, Coonawarra, and Margaret River each only manage 1 in every 300 listings on UK wine lists. Peter Fuller was clearly right to be upset at the lack of Australian winemakers at this year’s Australia Day tasting... But are things really as bad as export shipment data suggests?



AC Nielsen - US Off-trade wine					
Volume	4 wks ending... (% chg YoY)			period ending...	
	21 Mar-09	19 Feb-09	20 Jan-09	3mth	12mth
Foster's	2.6%	11.4%	8.3%	7.4%	-0.9%
- Foster's domestic	4.0%	11.6%	8.6%	8.0%	-2.6%
- Foster's imported	0.1%	11.1%	7.8%	6.2%	2.6%
Constellation	-6.5%	3.1%	1.1%	-0.8%	1.5%
The Wine Group	-0.9%	3.5%	2.3%	1.6%	1.2%
Gallo	-3.2%	-0.8%	-2.3%	-2.1%	1.7%
<b>Total</b>	<b>-0.8%</b>	<b>3.2%</b>	<b>3.1%</b>	<b>1.8%</b>	<b>1.9%</b>
<b>Value</b>					
Foster's	0.8%	8.8%	9.1%	6.1%	2.4%
- Foster's domestic	3.1%	10.9%	12.1%	8.6%	4.0%
- Foster's imported	-3.4%	4.9%	3.3%	1.5%	-0.5%
Constellation	-4.4%	5.4%	3.3%	1.4%	0.7%
The Wine Group	4.8%	8.3%	7.3%	6.8%	4.5%
Gallo	-0.4%	2.4%	-1.2%	0.3%	3.6%
<b>Total</b>	<b>0.6%</b>	<b>5.7%</b>	<b>6.6%</b>	<b>4.2%</b>	<b>4.7%</b>
<b>Market share</b>					
Foster's	6.9%	7.0%	6.9%	6.9%	6.7%
- Foster's domestic	4.5%	4.5%	4.5%	4.5%	4.4%
- Foster's imported	2.4%	2.5%	2.3%	2.4%	2.4%
Constellation	9.1%	9.4%	9.3%	9.3%	9.3%
The Wine Group	13.1%	13.5%	13.2%	13.3%	13.4%
Gallo	15.2%	14.9%	15.3%	15.1%	15.5%
Others	55.6%	55.3%	55.4%	55.4%	55.1%

Source: AC Nielsen, Citi Investment Research and Analysis

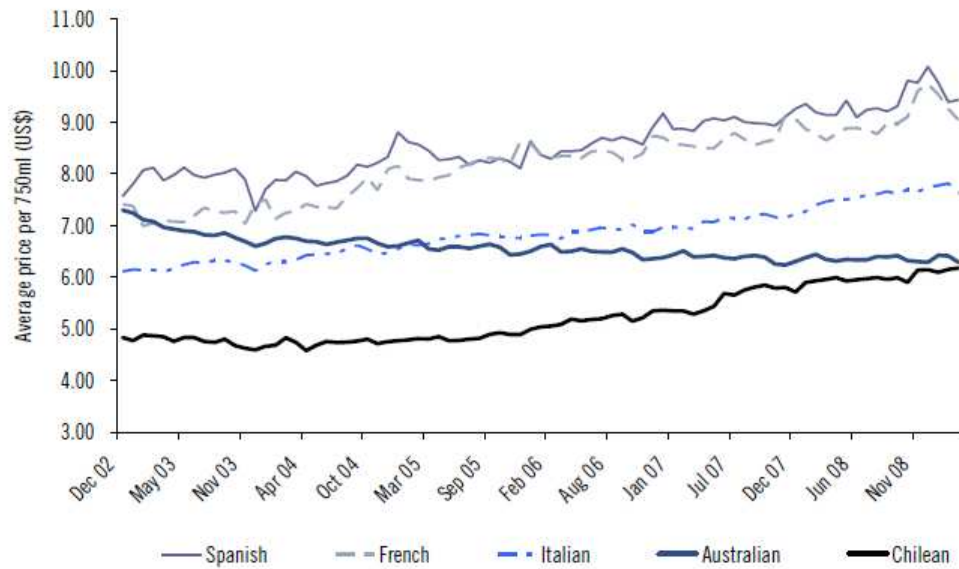
The bright light for Australia in the US is that sales depletions haven't slowed anything like the extent that export volumes have pointing to possible over reaction by importers and distributors. Many of our clients expected this to be the case and will no doubt be pleased to have some hard data to present to distribution partners. Running inventory down can only be sustained for so long.

France has suffered more on the back of stronger currency and higher average prices in a recessionary environment. Chile and Argentina (at great gallop) are rushing to fill the void. It's clearly a great time for South Africa to be looking to get into the market but the South Americans do have a big head start.

AC Nielsen - country of origin, US off-trade					
Volume	4 wks ending... (% chg YoY)			period ending...	
	21 Mar-09	19 Feb-09	20 Jan-09	3mth	12mth
Italy	-3.5%	-6.7%	-5.7%	-5.3%	-6.7%
Australia	-4.2%	-1.0%	-2.9%	-2.7%	-1.8%
France	-15.8%	-10.7%	-12.5%	-13.0%	-8.5%
Chile	8.8%	13.2%	11.9%	11.3%	5.0%
Argentina	117.5%	99.9%	94.6%	104.0%	73.4%
<b>Total Import</b>	<b>-1.0%</b>	<b>0.3%</b>	<b>-0.2%</b>	<b>-0.3%</b>	<b>-1.3%</b>
<b>Value</b>					
Italy	-1.4%	-1.4%	0.9%	-0.7%	-1.1%
Australia	-5.2%	-1.4%	-2.2%	-2.9%	-1.9%
France	-12.0%	-5.9%	-5.8%	-7.9%	-4.5%
Chile	12.9%	17.4%	15.6%	15.3%	10.4%
Argentina	94.6%	83.8%	76.8%	85.3%	67.5%
<b>Total Import</b>	<b>-0.4%</b>	<b>2.3%</b>	<b>3.1%</b>	<b>1.6%</b>	<b>1.4%</b>
<b>Market share</b>					
Italy	7.2%	6.9%	7.0%	7.0%	7.2%
Australia	9.2%	9.2%	9.1%	9.2%	9.1%
France	2.0%	2.0%	2.1%	2.0%	2.1%
Chile	1.7%	1.7%	1.6%	1.7%	1.6%
Argentina	1.3%	1.2%	1.1%	1.2%	0.9%
<b>Total Import</b>	<b>24.5%</b>	<b>24.2%</b>	<b>24.2%</b>	<b>24.3%</b>	<b>24.2%</b>

Source: AC Nielsen, Citi Investment Research and Analysis

Australia continues to drive its average price down in the US to the point where Chile is about to overtake. Recent aggressive discounting by leading Australian brands will not be helping the overall image of Australian wine in this market.



Source: AC Nielsen, Citi Investment Research and Analysis

Despite all the doom and gloom however, wine sales over \$US15 continue to grow at more than 10% per annum. Inow is actually an excellent time, whilst air fares to the States are at an all time low out of many departure points, to be building relationships anticipating some real upward momentum as things recover, in WBS's view.

There is still a strong market for medium sized producers of quality / estate grown wines that can stand tall in the world on their own merit. There's a better chance still for collaborative groups to make a name for themselves as others look to cut travel budgets.

AC Nielsen - US Off-trade					
Volume	4 wks ending... (% chg YoY)			period ending...	
	21 Mar-09	19 Feb-09	20 Jan-09	3mth	12mth
\$0-\$5.99	-0.3%	2.7%	2.8%	1.7%	2.3%
\$6-\$8.99	-3.4%	4.8%	3.3%	1.5%	0.3%
\$9-\$11.99	1.9%	10.9%	9.0%	7.2%	7.3%
\$12-14.99	-9.8%	-1.7%	-1.6%	-4.4%	1.2%
\$15+	1.9%	9.0%	22.6%	10.9%	11.2%
<b>Total Domestic</b>	<b>-0.8%</b>	<b>3.9%</b>	<b>3.9%</b>	<b>2.3%</b>	<b>2.7%</b>
<b>Value</b>					
\$0-\$5.99	4.8%	8.1%	8.1%	7.0%	7.0%
\$6-\$8.99	-2.4%	4.6%	3.9%	2.0%	0.7%
\$9-\$11.99	1.4%	9.6%	8.9%	6.5%	8.2%
\$12-14.99	-11.3%	-2.8%	-2.5%	-5.6%	0.5%
\$15+	0.3%	8.6%	19.5%	9.3%	10.1%
<b>Total Domestic</b>	<b>0.9%</b>	<b>6.8%</b>	<b>7.7%</b>	<b>5.1%</b>	<b>5.8%</b>
<b>Market share</b>					
\$0-\$5.99	43.0%	42.2%	41.7%	42.3%	41.9%
\$6-\$8.99	18.8%	19.1%	19.0%	19.0%	18.8%
\$9-\$11.99	20.1%	20.0%	19.8%	20.0%	20.2%
\$12-14.99	7.5%	7.6%	7.7%	7.6%	8.0%
\$15+	10.6%	11.1%	11.9%	11.2%	11.0%
<b>Total Domestic</b>	<b>75.5%</b>	<b>75.8%</b>	<b>75.8%</b>	<b>75.7%</b>	<b>75.8%</b>

Source: AC Nielsen, Citi Investment Research and Analysis

## THE UK

The UK is a similar if slightly better story. Australia is again starting to recover whilst France continues to suffer and other countries step in to fill the gap. This time it is New Zealand, Chile and Italy that are performing strongly in the current environment.

AC Nielsen - UK off-trade: country of origin wine					
Volume	4 wks ending... (% chg YoY)			period ending...	
	07 Mar 09	07 Feb 09	10 Jan 09	3mth	12mth
Australia	-12.4%	-3.6%	16.0%	0.7%	-3.0%
France	-12.9%	-18.5%	-10.0%	-13.5%	-6.3%
Italy	19.2%	30.1%	11.8%	19.4%	9.2%
Chile	35.1%	15.9%	34.4%	29.1%	-4.4%
New Zealand	9.1%	-16.1%	68.8%	24.9%	6.7%
USA	-15.9%	-16.7%	12.9%	-5.8%	3.3%
<b>Total</b>	<b>3.4%</b>	<b>4.2%</b>	<b>11.6%</b>	<b>6.7%</b>	<b>2.1%</b>
Value					
Australia	-7.2%	-0.2%	15.5%	3.5%	-7.5%
France	-4.2%	-9.2%	-4.2%	-5.6%	-8.8%
Italy	25.4%	44.4%	25.4%	30.6%	11.9%
Chile	40.1%	21.3%	40.0%	34.5%	-3.2%
New Zealand	14.0%	-10.4%	56.2%	23.6%	4.3%
USA	-11.4%	-12.2%	13.0%	-2.7%	-2.1%
<b>Total</b>	<b>9.4%</b>	<b>10.3%</b>	<b>16.0%</b>	<b>12.2%</b>	<b>-0.3%</b>
Market Share					
Australia	21.8%	22.4%	25.5%	23.4%	23.2%
France	13.6%	14.2%	15.3%	14.4%	15.3%
Italy	13.9%	15.1%	13.1%	13.9%	13.5%
Chile	10.1%	7.5%	6.2%	7.9%	7.1%
New Zealand	2.9%	2.3%	4.0%	3.1%	3.1%
USA	10.2%	10.5%	11.7%	10.9%	12.6%

Source: AC Nielsen, Citi Investment Research and Analysis

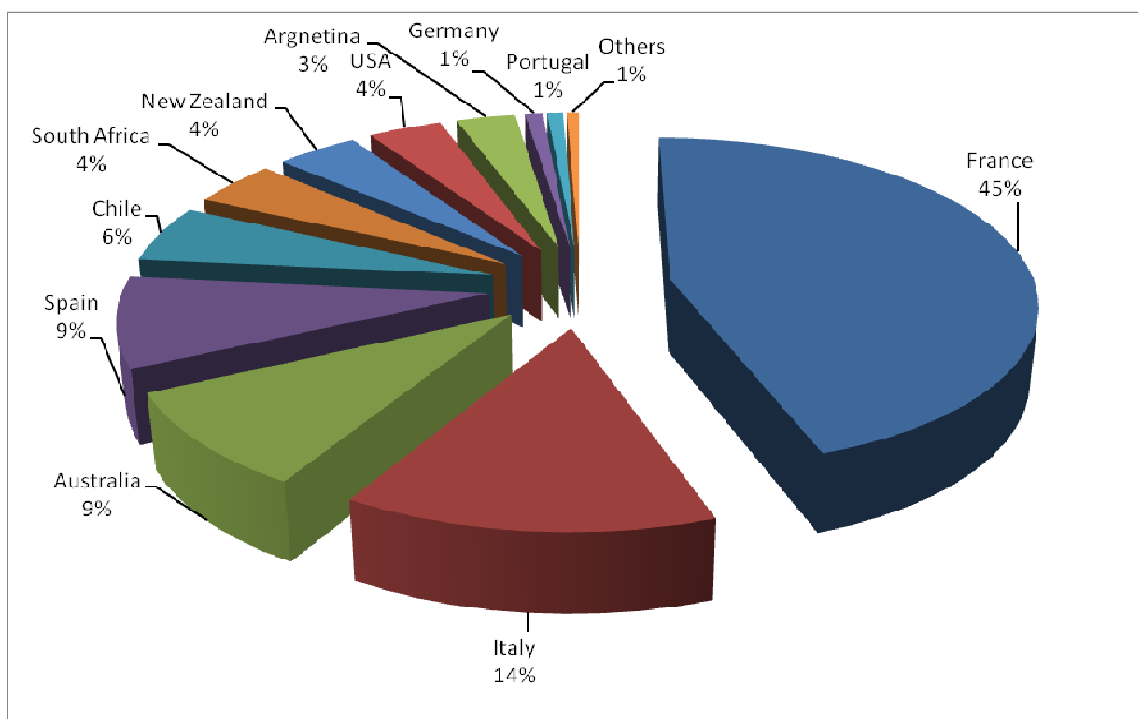
Wine Business Solutions has just completed “Wine On-Premise UK 2009”, the most comprehensive investigation into the UK On-Premise ever undertaken. The study was based on almost 12,500 wine listings covering all major regions of the UK.

The report details;

- Who the best distributors are Nationally and Regionally
- The effectiveness or otherwise of the different distribution models
- The most successful brands,
- The most listed wine styles,
- Supplier country and region “health checks”
- Prices achieved for “by the bottle” and “by the glass” listings - by style, region and supplier country.
- Potential profits for participants
- Opportunities to expand On Premise business.

The following are just 2 of the 68 charts and diagrams in the 80 page study.

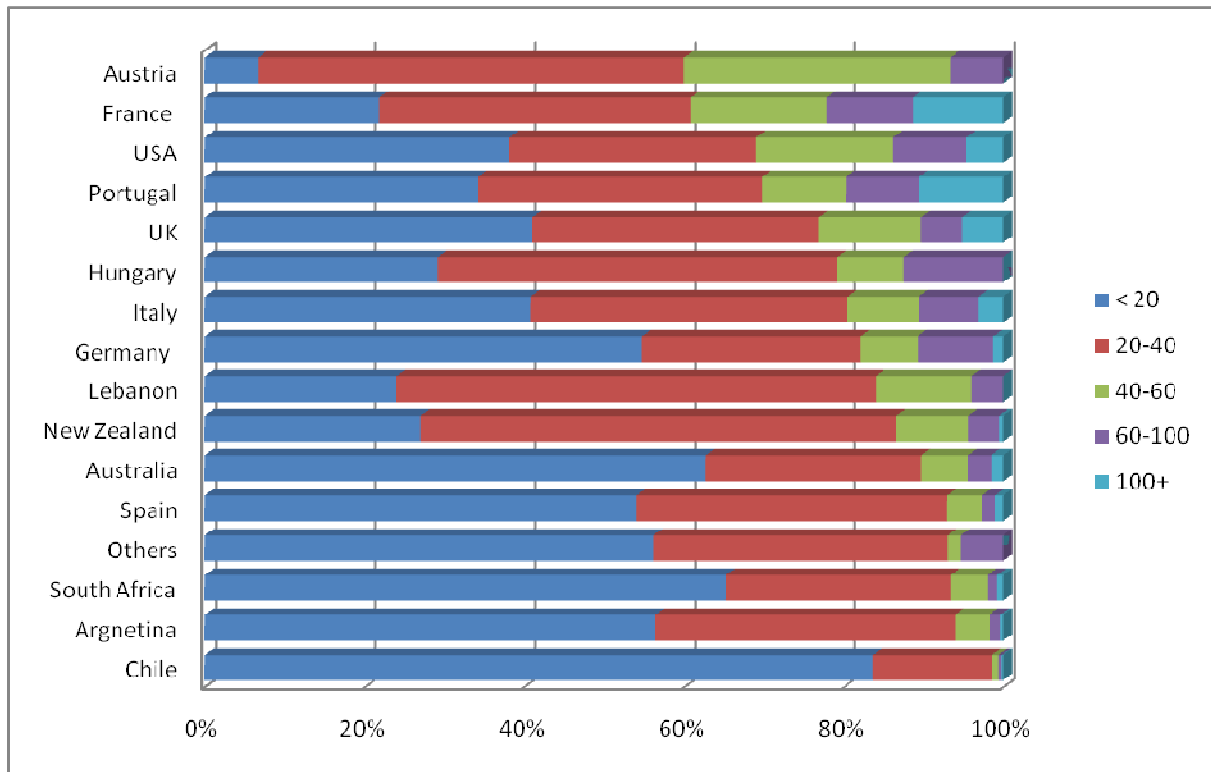
**Figure 16 – Percentage of Total Listings by Country**



France is the clear leader whilst many of the other leading supplier countries under-perform their off-trade market share. The most notable exception is New Zealand. Marlborough is not only the number one source of Sauvignon Blanc on UK wine lists, it ranks as number two for Pinot Noir, three for Riesling and in the top dozen of Chardonnay. With the Top 20 brands making up 56% of listings, individual Marlborough brands are well poised for further growth as well.

New Zealand does not look so good when it comes to the average listed price of a bottle of wine. Whilst this might seem a good thing in the current environment, challenging the prestige of France in the long term will require more presence of higher priced, higher quality wines on UK lists.

**Figure 17 – Percentage of Total Listings by Country and Price Point (£s)**



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# 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.

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