

Wine Business Solutions



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# **The Wine Paper 52**

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## ***A Seismic Shift in Wine Tastes***

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Michael Porter famously said – “The essence of strategy is choosing what not to do.” This is an especially poignant point for the smaller wine businesses that we consult to, but it is equally true for all business.

As I try to write for an increasingly global audience, it is difficult to reference Australia without people feeling that I must be speaking from a local perspective, rather than providing useful insight that is universal.

I am going to plough ahead with Australia as an example in any case as the country’s international strategy provides, arguably, the best example there is of ‘what not to do’ with your regional or country brand.

In 2004, I was lucky enough to be handed the opportunity to give a key note speech at a global manufacturing conference held at Lake Como, Italy. (Academics really do organise the best junkets). My topic was ‘collaborating for competitive advantage’ using the Australian wine industry as an example.

The timing couldn’t have been worse, of course. It was right at the end of the ‘New World Wine’ bull run and the beginning of massive oversupply. Oversupply being the symptom of the problem, not the root cause.

**Figure One - The Monthly Value of Australian Alcoholic Beverage Exports Since 1988 (\$A Millions)**

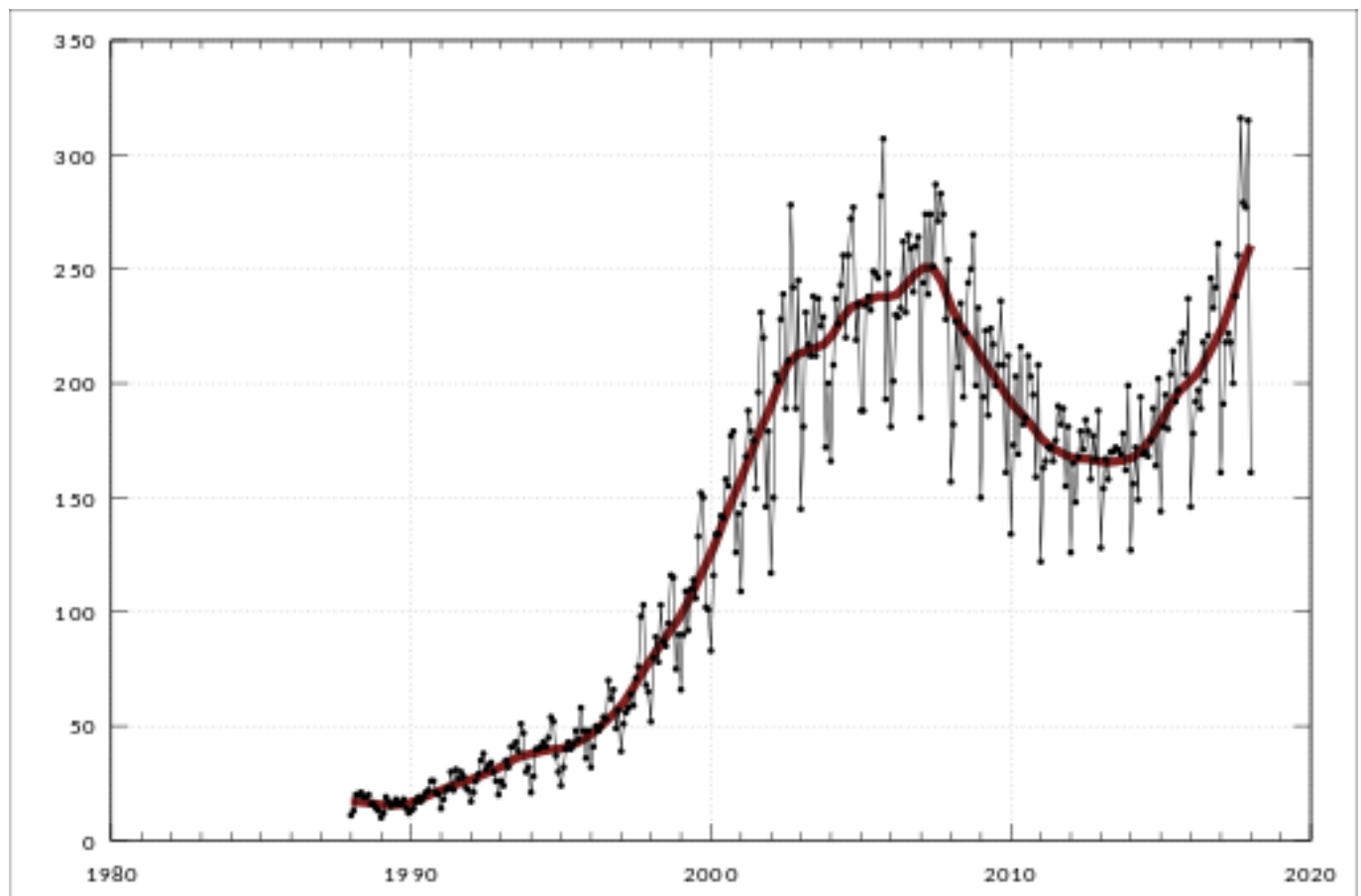
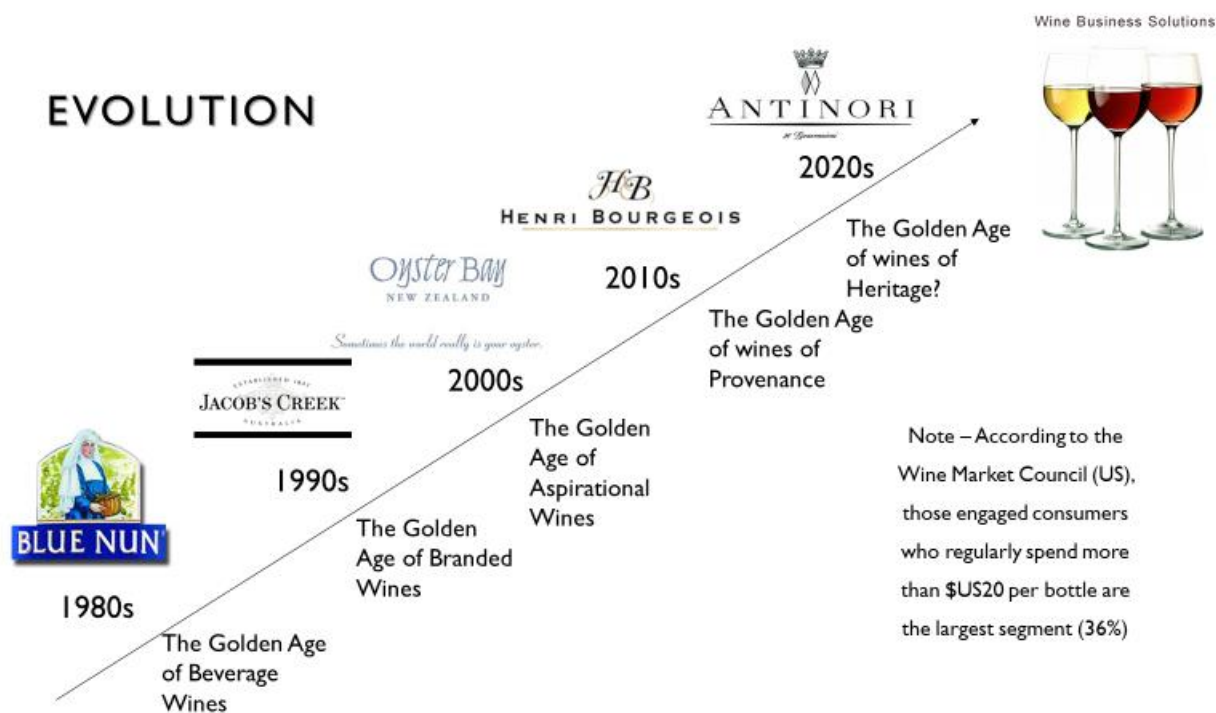


Figure Two – Evolution of the Global Wine Market Over Time



There were many reasons for the colossal bust that have been well worked over in this Paper previously. Prime amongst them was an inability to acknowledge change, to respond to it and to even attempt to rewrite the national strategy, let alone rework it.

Tesco’s Dan Jago, as arguably the most powerful wine buyer globally of that time, made it crystal clear. A consumer (that we rather clumsily refer to as ‘Aspirational’) is coming and you had better be ready. She likes it lighter, brighter, bubblier, fresher and pinker than your current offer. So be ready to change.

Australia did not respond. New Zealand stole 40% of Australia’s white wine market. This was an even bigger hit to the industry than the mammoth dip in exports that drew much more media attention internationally.

That is now ancient history but has Australia learned anything? Arguably not, looking at [our latest research](#).

Always I am hesitant to predict the future knowing how often everyone, from economists to weather people, gets it wrong. Sometimes, however, when the forecast is four inches of rain, like it was this morning where I write, it is going to happen. And when it does, it’s still hard to believe the magnitude of it.

We’ve all heard about ‘Natural’ wines changing the way younger drinkers think about how wine should taste, that they are preferring the drier, lighter, more savoury and complex tastes typifying these wines.

But what about the wider market? Is there a fundamental shift taking place there?

We recently completed a study of the Canadian On-Premise. It was the first time that we'd done this in five years and it was intriguing to see how the market has changed.

Essentially, all markets are heading in the same direction. An MW asked me the other day – “Where do the key On-Premise trends originate from? Who is leading?” My answer was - “Everywhere and no one”. Instagram and Facebook connect Hospitality globally. Ideas spread like wildfire. No one drives the future.

We were therefore not surprised to see that most of the aspects that had dominated stereotypical ideas of Canadian wine drinking culture had diminished and that, today, Canada looks more like every other mature market that we measure than what it did 5 years ago.

So far, we've researched the 'Anglo' markets that are the destination for around half of global wine exports. Next year, we will launch the first ever insight into the On-Premise market in China. Whilst our research results are always full of surprises, I will be shocked if the On-Premise market in central Shanghai today is wildly different to that of Singapore's, San Francisco's or Sydney's.

At the same time, across all the markets we measure, there is a massive underlying shift in people's palates, one which Australia's largest exporters did not see coming and did not respond to. This now leaves these companies (and the country by default) two major gear shifts and more than 20 years behind the market.

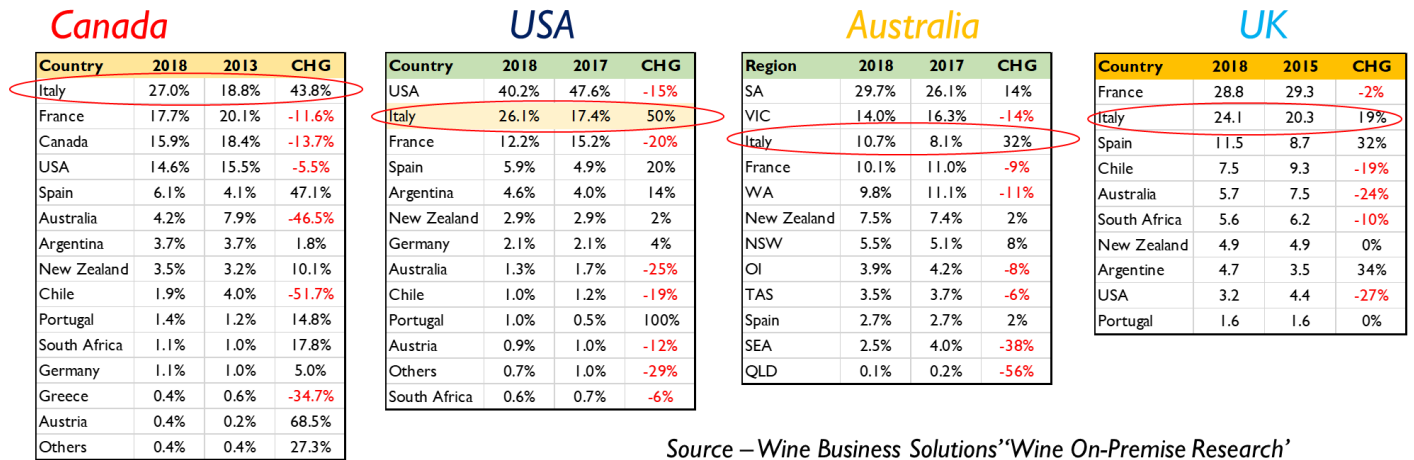
The engaged wine consumer is now king / queen and what they want is different again. As with the 'savalanche' of the naughties, the strongest clue about this was right under Australian producers' noses. You don't have to be a world traveller to see the impact of global competition.

**Figure 3 Share of Wine Listings - Imports, Locally Sourced and ex Other States by State**  
Source – Our 'Wine On-Premise Australia 2018' Research

	NSW	VIC	QLD	WA	SA
Imports	42%	39%	36%	24%	19%
Home State	11%	27%	0%	39%	68%
Other Australian	47%	34%	64%	37%	13%

In the most populous and commercially important Eastern States of Australia – New South Wales, Victoria and Queensland – Imports are hovering around 40% of all listings on wine lists. There's that number again, one that puts it beyond doubt that this is permanent shift rather than a passing trend.

Figure 4 The Change in Share of Listings of Italian Wines Over Time



So, what are they drinking? Well, the same as everyone else as it turns out - Italian wine. You can see that between 2013-18, Italian wine listings increased by nearly 50% in Canada and almost 20% between 2015-2018 in the UK. That is nothing compared to listings jumping by a third in Australia and by 50% in the US, in the last year alone. From what we are hearing from the UK trade, we are expecting a similar increase when we analyse our data ahead of releasing our Wine On-Premise UK 2019 report in January.

Why? Well, pricing is not unimportant. ‘Branded’ wine has never featured on Northern European wine lists and Anglo countries are now going the same way. Those big-name wine brands retailing at \$US11 or less are disappearing off wine lists at a huge rate of knots in all markets. Restaurants need to optimise spend.

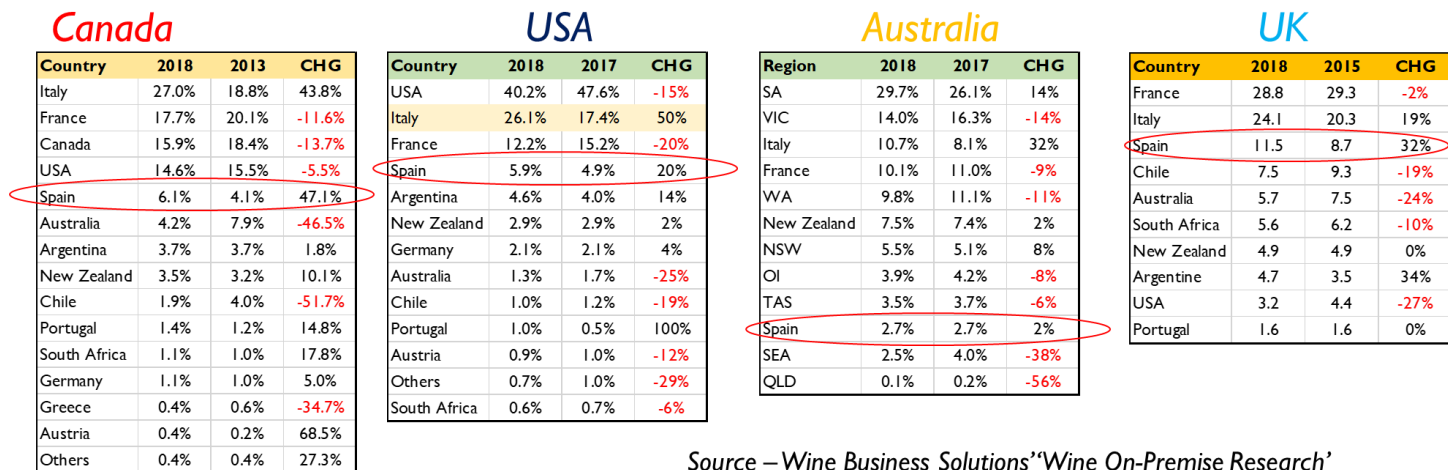
At the other end, red Burgundy and Bordeaux are now so hideously expensive that they too are losing significant share. There is no place any more on restaurant wine lists in mature markets for ‘show off wine’ unless those restaurants happen to be in show off locations - Las Vegas, Macau etc.

It’s also about the depth and sophistication of the Italian offer. It’s tempting to think that this must be all about prosecco, pinot grigio and rose. But it’s not. That was 10 years ago. All regions of Italy (and what part of Italy is not a wine region?) can be found on wine lists the world over.

Far outweighing these factors, however, are the styles of the wines themselves. They are what restaurants and their customers want. Textural interesting white wines with lower sulphur levels. Italian white wines have improved, out of sight, during the last 5 years. Savoury elegant medium weight red wine has been a speciality for many Italian regions for many years. These have continued to improve at the same time as they have become better known. The timing is perfect, just as it was for Argentinian Malbec 10 years ago.

Above all, it is that Italian producers can put ‘wine that tastes like wine’ on a wine list at the right price, something some countries’ largest producers can’t currently be accused of. So, for the curious, and research confirms that emerging drinkers are more curious than ever, Italy kind of has it all.

**Figure 5 The Change in Share of Listings of Spanish Wines Over Time**

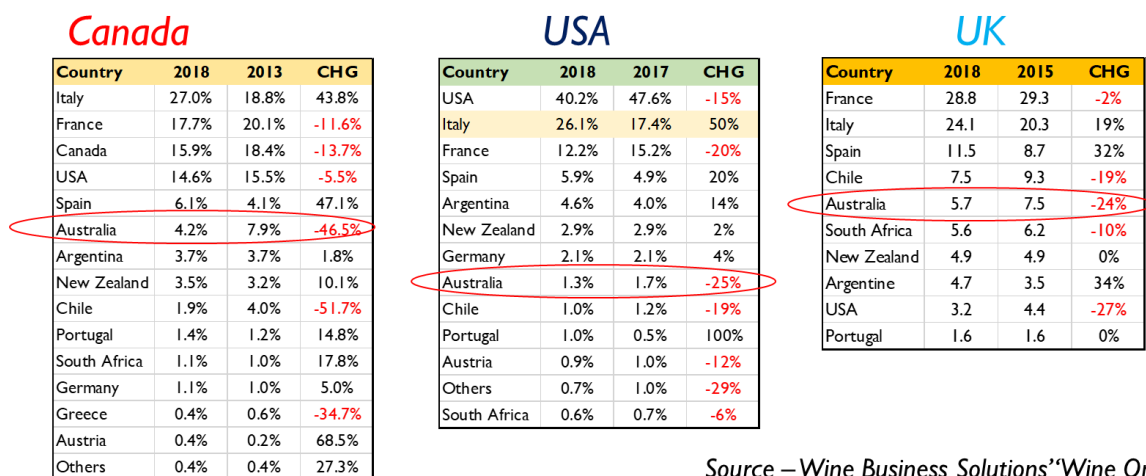


Source – Wine Business Solutions’Wine On-Premise Research’

You can also see an increase in Spanish wine listings that, more or less, mirrors those of Italian wines. They, too, have looked to reinvent their white wine offer with wonderful wines from Rueda and Rías Baixas. They also have that medium weight, savoury, high quality, value for money red wine staple in the form of Rioja.

How has Australia been fairing in this environment? Flying like the proverbial concrete Cessna, to use a bit of Australian colloquial parlance.

**Figure 6 The Change in Share of Listings of Australian Wines Over Time**



Source – Wine Business Solutions’Wine On-Premise Research’

Australia has lost half of its listings in Canada over the last five years and almost half of its listings in the US in just the last two. Australia is barely one in a hundred listings in the US meaning you’d be lucky to see one wine on your average list. The UK is going the same way.

**Figure 7 The Change in Share of Listings of Australian and Chilean Wines Over Time**

*Canada*

Country	2018	2013	CHG
Italy	27.0%	18.8%	43.8%
France	17.7%	20.1%	-11.6%
Canada	15.9%	18.4%	-13.7%
USA	14.6%	15.5%	-5.5%
Spain	6.1%	4.1%	47.1%
Australia	4.2%	7.9%	-46.5%
Argentina	3.7%	3.7%	1.8%
New Zealand	3.5%	3.2%	10.1%
Chile	1.9%	4.0%	-51.7%
Portugal	1.4%	1.2%	14.8%
South Africa	1.1%	1.0%	17.8%
Germany	1.1%	1.0%	5.0%
Greece	0.4%	0.6%	-34.7%
Austria	0.4%	0.2%	68.5%
Others	0.4%	0.4%	27.3%

*USA*

Country	2018	2017	CHG
USA	40.2%	47.6%	-15%
Italy	26.1%	17.4%	50%
France	12.2%	15.2%	-20%
Spain	5.9%	4.9%	20%
Argentina	4.6%	4.0%	14%
New Zealand	2.9%	2.9%	2%
Germany	2.1%	2.1%	4%
Australia	1.3%	1.7%	-25%
Chile	1.0%	1.2%	-19%
Portugal	1.0%	0.5%	100%
Austria	0.9%	1.0%	-12%
Others	0.7%	1.0%	-29%
South Africa	0.6%	0.7%	-6%

*UK*

Country	2018	2015	CHG
France	28.8	29.3	-2%
Italy	24.1	20.3	19%
Spain	11.5	8.7	32%
Chile	7.5	9.3	-19%
Australia	5.7	7.5	-24%
South Africa	5.6	6.2	-10%
New Zealand	4.9	4.9	0%
Argentine	4.7	3.5	34%
USA	3.2	4.4	-27%
Portugal	1.6	1.6	0%

Source – Wine Business Solutions ‘Wine On-Premise Research’

Australia is precisely on the same track as Chile in these vital markets. At least Chile has a legitimate excuse. Prior to the ‘New World Wine’ boom of the 1990s, there was no market in Chile for this type of product.

Chilean wine (mainly French grape origin, single varietal wines and highly competitive prices) that screamed onto the global stage, even outrunning Australia at some points in history, were a product almost entirely for the export market. At the time, it was estimated that middle classed Chileans numbered no more than 125,000.

They structured their whole industry around producing these wines for export at scale. It’s hardly surprising that they haven’t been able to easily adapt to change. Yes, there are hipsters in the desert making wine in Chile too but it is a long hard road for them now.

Australia, on the other hand, has no such excuse. Australia has over 2300 estate wine producers, 8-9 world class wine producing regions amongst over 60 appellations and the full palette of food friendly wines, across every conceivable wine style. And these wines can be produced cost competitively, in most cases.

Australia has embraced the ‘hipster’ wine revolution as fervently as anyone else and winemakers from the King Valley to McLaren Vale have realised that Italian varietals, not French, are probably going to suit better as the world gets warmer. Those regions that do excel with French varietals and Riesling await discovery.

So, what is going on?

That is best answered by taking a look at the Australian offer On-Premise. Take the Canadian market, for example, not five or ten years ago but right now.



**Figure 8 - The Most Listed Australian Brands in the Canadian On-Premise – Source, WBS Research**

<b>Brand</b>	<b>2018</b>	<b>2013</b>	<b>CHG</b>
Jacob's Creek	9.6%	7.3%	31%
Lindeman's	5.6%	7.2%	-22%
Cliff 79	4.6%	0.9%	386%
Yalumba	3.8%	2.0%	93%
Rosemount	3.4%	3.0%	11%
Wolf Blass	3.4%	8.7%	-61%
Wyndham Estare	3.0%	4.6%	-35%
Hardy's	2.6%	3.4%	-24%
Penfolds	2.5%	5.1%	-51%
Wakefield	2.5%	0.5%	428%
Yellow Tail	2.5%	4.5%	-44%
Earthworks	2.3%	0.5%	400%
Kingston Estate	1.8%	2.2%	-17%
19 Crimes	1.6%	0.1%	1901%
McGuigan	1.6%	1.1%	43%
Oakbank Cellars	1.6%		
Barossa Valley Estate	1.4%	0.8%	83%
Nugan	1.4%	1.6%	-13%
Peter Lehmann	1.4%	3.0%	-53%
Tall Poppy	1.4%	0.6%	129%

With the exception of my dear friends at Taylors (trading as Wakefield wines internationally) and maybe the top end of Yalumba and Peter Lehmann brand's offer, it's as though you went out for a nice meal at your favourite suburban restaurant and the waiter accidently gave you the menu from flipping McDonald's.

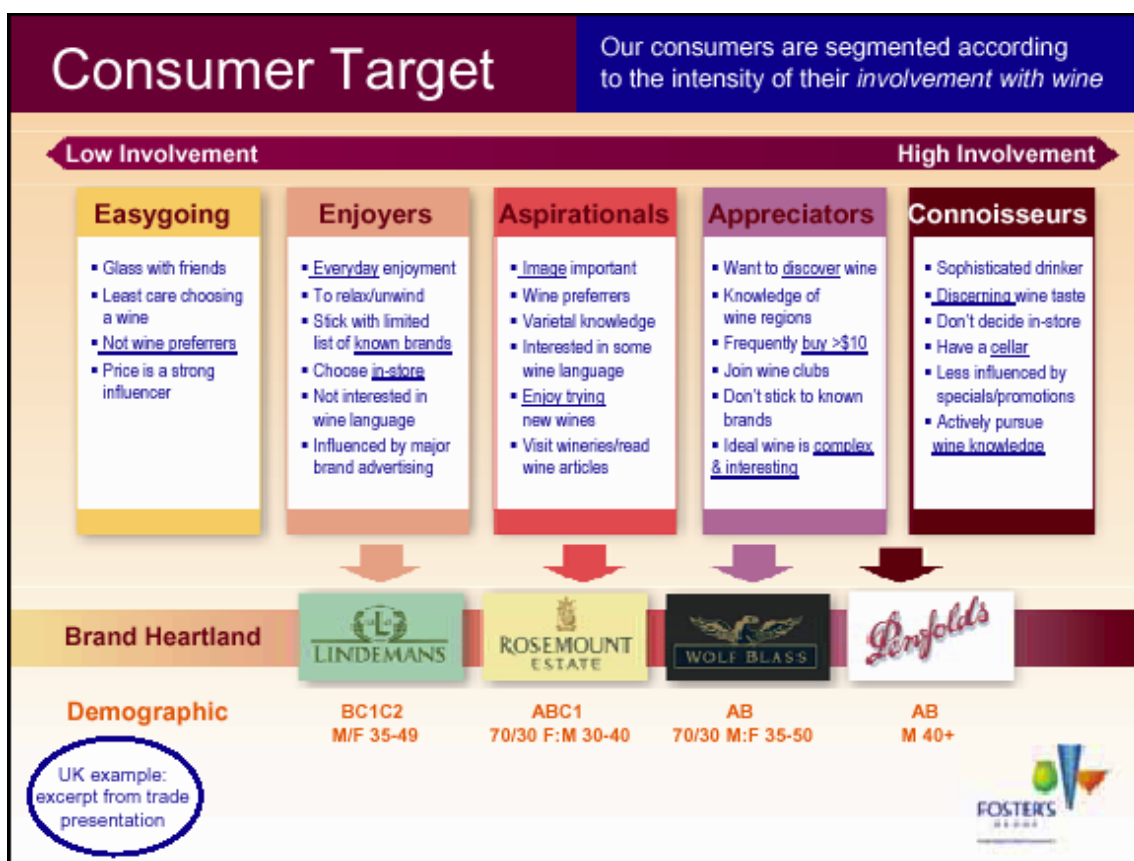
Australian's don't drink these wines in their own restaurants so why on earth do Australia's largest companies think anyone else should?

You might well then ask – well why does any of this matter? Aren't the Chinese going to buy it all anyway?

In the US, the largest companies – Gallo, Constellation and Jackson Family Wine Estates most of all – saw the change coming and have invested heavily in premium vineyard assets along with their associated brands across the country and in the case of JFWE, around the world.

They have all taken a hit this year as a result of a big drop-off in low priced listings, according to our research, but none have been affected as badly as Treasury (down 24% 2017 vs 2018). Large US companies are all well placed to grow their listings going forward. Treasury, not so much.

Figure 9 – Slide from Analysts’ Presentation, Circa 2005



It's not like they didn't understand the market and what the options were. The slide above was presented to analysts in London in 2005 and all of us who follow the industry were relieved to see that at least someone in their ranks kind of got it.

That lasted less than six months. Foster's salesforce just didn't understand premium wine and that's all the time it took to discount all their brands, except the top end of Penfolds down below \$10.

Fast forward thirteen years and things must have changed dramatically, haven't they? All the news out of Wine Australia is good, Treasury's stock price has soared and exports have recovered to about where they were 10 years ago. Woohoo!

What Treasury are doing is what I call the 'Masstige / Prestige / Sell it all to the Chinese Strategy'. Essentially, what they have done is said that a provenance driven strategy where you buy quality assets and make wines with integrity, styled for a sophisticated consumer, selling a story linked back to the vineyard is just too hard.

Their 'strategy' is to make like the wine engaged consumer doesn't exist, make it about brand and drive image with price. The other major Australian companies are no better and the Americans are all being diverted by cannabis at this moment. I am not saying one listed company behaves any better than any other.

Figure 10 – Modified Slide from Analysts’ Presentation



There is another train wreck coming, obviously, so those that love the Australian wine industry as I do, had better be prepared to take action.

Just as Australia lost the US market by underestimating how fast it would become more sophisticated, the same will happen, possibly faster in China.

It doesn't matter where you look in the world, the emerging consumer is demanding better, whether it's beer, wine, spirits or food.

Our On-Premise research confirms that in all markets - Sancerre is beating Marlborough, Alto Adige and Friuli are replacing generic Veneto Pinot Grigio, German Riesling is replacing New World Riesling from lesser regions, Pinot Noir has been replacing generic Cabernet and Merlot and savory European Reds are replacing New World (Classic French) sweeter fruit profile varietals. And so on...As I said in our last newsletter, the region with the best reputation for any given wine style is rapidly winning everywhere.

How long do you think it will take Chinese consumers, just as they did in the US, to work out that they have been hoodwinked? And what will it take for Australia to get out of this cycle and learn from mistakes?

What can be done about it? Probably not much where the listed companies are concerned. They are a law unto themselves driven by quarterly earnings results. You can, however, certainly turn up the heat on Wine Australia. If you are an Australian producer, then the \$50Million dollar fund that they have been given is literally a once in a lifetime opportunity to reinvent the Australian brand in key markets.

You can be making sure that they are not building bureaucracy, feathering their own nest, replicating services already provided to industry, highly efficiently, by outside suppliers, at massive cost to the fund. I've heard a lot of complaints from outside providers about that recently.

You can keep the pressure on them to keep the conversation premium. Not by showing the world that Australia can make hipster wines too, but by keeping the focus on the country's world class estate producers who are making the wines the whole world wants.

Everyone wants to know everyone's winemaking story from Algiers to Azerbaijan. There is an Australian story that hasn't yet been told. And it sure as hell isn't 'Son of Crocodile Dundee'.

You can insist that the prime objective be to protect the Australian brand rather than to appease the largest companies. Their interests shouldn't be in conflict, but they are. Treasury's plan, in particular, is built around a short term get out. Current top management won't want to be there when the 'dragon' turns.

Most importantly, you can get directly involved. The best replacement for a bad Australian wine on a wine list anywhere is a good one.

What simple take out is there for any wine producer anywhere? This is the golden age of wine. So be happy. For maybe the first time ever, anybody from anywhere can sell their wine absolutely everywhere. But it must have integrity, it must have a story and now, more than ever, it must be of traceable high quality.

Once you've got your own individual story sorted, it's time to ensure that it is fitting into your regional and national strategy. You might have to get directly involved to make it happen. This can be massively time consuming, but it is worth it. My time on those regional and national boards absolutely taught me that.

And then it is on, unrelenting into next year. I hope that you've had much success this year and that the festive season brings all good things to you. As ever and always if we can help with your planning for next year and perhaps far beyond, please do be in touch.

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

**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, wherever possible. Everybody knows they should do this. Few do. The difference in the 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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