Australia's UK Market
Overdue for Review

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The last time I spoke at a wine industry event in Australia was about ten years ago when the theme of the conference was the impending move from scarcity to surplus. How ironic therefore that ten years later here I am, just when all the discussion is about how Australia should deal with that surplus ending. And the irony too appears to be that whilst on the one hand the impending scarcity might appear to represent the light at the end of what has been an extremely long tunnel, on the other hand some of the issues it raises suggest that the light may not represent daylight but the headlights of something rather large coming the other way. Every cycle brings its challenges. And all it proves is that one thing you can never be in the wine industry is bored!

Now I should say that the subject of my presentation is not a collection of thoughts on how Australia should best deal with this change of circumstances. My focus is broader than that. Having looked at Directions 2025 and read a number of critiques of this initiative I thought I would concentrate on how Australian producers might go about achieving a key goal it lays out: How does Australia make a much greater impact in the premium sector in the UK and by doing so raise its status and image? Raise it perhaps to a level that it has already achieved once, in those halcyon days of the 90's when the combination of a scarce and valued resource helped by the absence of a credible competition made marketing Australian wine relatively straightforward. And by premium sector I should say I mean wines selling at £6 and above; whether from the major brand owners or small producers it makes no odds, my message will be the same.

Directions 2025 is let me say first an excellent document - a worthy successor to the strategic initiatives that have gone before it and a clear demonstration of how in terms of strategic thinking and a rational approach to wine business planning, Australia is generally well ahead of the competition.

My only issue with it is in the "How" - how does Australia leverage off its market leadership and its generic brand franchise and move onwards and more importantly upwards?

Achieving this goal implies not only a radical reappraisal of the brand strategy of individual producers but also implies, particularly at the premium end, an approach that is based on a very clear understanding of the nature of the competition and from that understanding real points of difference need to be developed.

And in considering what this implied I found myself as a first step going back 20 years to the "launch" of Australian wine in the UK, on the basis that if one can understand where one has come from one can more easily evaluate where one is and the direction in which one should be going.

And I came to the conclusion that some of the factors behind Australia's success were also factors which were now inhibiting Australia's progress...

SLIDE Desire

Australia was successful, as an overview, for the following reasons. Firstly there was the desire - that export or die mentality without which success overseas will always be compromised. Linked with this there was a desire to export to the UK in particular, at that time the shop window of the world in wine terms, and also a large market with a propensity to be open to new sources of supply, as it remains today.

The combination of the next three factors however ensured that the impact of Australia would be significant. Firstly the attitude or approach of Australia represented a cathartic moment for the UK Wine trade. Strategies were market led, in fact the fact that producers had strategies at all rather astonished the retailers, and there was a refreshing informality about the wave of Australians, winemakers and sales people, which livened up a rather stuffy trade scene. This approach was helped by the cultural and linguistic affinity between the two countries which facilitated communication with both the trade and the consumer.

This was accompanied by the capability to realise the potential of the market. The drive was led by big companies who not only treated wine as a business, hence the rational market-led approach, but also had the resources to set up subsidiaries (a relatively rare feature at that time), which gave them focussed control over implementation of their strategy and the through profit. And finally, and very relevant to my argument later, they had unusually in the world of wine, large quantities of premium wines in their portfolio and therefore could ladder their proposition.

The old world model at that time - and it’s not much changed now - is that premium wines were produced only by small companies so there was a total disconnect between the premium and mainstream sectors in terms of philosophy and customer and brand strategy.

Australia forced a rethink of this. Big if it was never going to be beautiful could be very acceptable and the gap between the super-premium and mainstream sectors could be filled by the same brands. Both individual and generic strategies could therefore cover the whole market place through brand ladders - a very powerful marketing tool.

And then there was the product. It is of course a much repeated myth that the Australian companies who came to the UK in the mid 80's did lots of research and then went home and produced wine with the UK consumer in mind. The reality was less consumer led; Australia made the most of the fact that the wines already produced for you here resonated in the UK market and this fact, linked to clear user-friendly presentations and the use of varietals, which added Old World status and cues, then completed the jigsaw.

SLIDE Timing

Well not quite. There was one other factor and that was TIMING - and it was this which turned impact into revolution.

SLIDE Kingdom of the Blind

On one level Australia simply got the basics right: approach, resource, strategy, product.

It could be said that "In the kingdom of the blind the one eyed man is king."

You made the trade realise how out of line and how relatively unprofessional we all were and the Australian "way" became a role model really for the next ten years for countries and producers around the world. And you should all be very proud of that legacy.

SLIDE Desire etc

However the problem was that the competitive advantage was too fragile - the model for the new world competition was too easy to replicate. Desire to sell into the UK is now almost universal, even if the UK has lost some of its sheen as a market. Other countries too have the capability to compete in terms of resource and approach. The style of the product and the presentation has been replicated to such an extent that many commentators see, certainly at the mainstream level, an interchangeable array of wines across the new world. Australia still has a residual "first in" advantage which is demonstrated by its market leadership, brand shares and relative generic brand equity - and I'm not in any way belittling that achievement - but the advantage is much reduced.

Scarcity too was a double edged sword. It ensured that throughout the 90's producers were "forced" to promote value not volume but it also let in the competition and probably too the premium brands relied too much on scarcity as a marketing tool - much as the NZ brands are doing in my view at the moment. There was not enough investment in building real brand equity. It's interesting of course to speculate on what might have happened if Australia had moved out of scarcity at a controlled pace - but ultimately pointless.

The tidal wave of wine appeared, the brands were discounted which reduced their equity, an equity which was in many instances too fragile anyway, and crucially the premiums got sucked into the quicksand. The very ladders which were a key part of Australia's success proved to be a double edged sword, an irony which is very relevant to the second half of my presentation which focuses, as I've noted, on the premium sector.

Let's pause for a minute and consider the competition in the premium sector - and specifically the Old World.

SLIDE Provenance

The old world proposition is based almost entirely on provenance: regionality, appellations, terroir. Even the winemaker, until fairly recently, was not necessarily seen as central. The proposition was based often on a perception (and occasionally a reality) of scarcity and this was linked in people's minds to the small is beautiful mantra. Wine to the purist in the UK would come from small producers, probably family companies whose wine reflected their passion, the vagaries of climate, nature and the terroir; rather than a market need. "If you like my wine, great. If not, well that's tough."

Wine, ideally, should spring from the culture, the traditions and the passions of a particular community rather than from a desire to build a major brand or make a significant return on investment. And every community again ideally should produce different wines from the one over the hill. And I don't mean to be scathing. If I'm honest I probably buy into this ideal myself.

The idea that producers may have business goals which are not fundamentally about the need to hit financial targets or growth targets is rather appealing. It suggests one has perhaps arrived at a higher form of existence. But in terms of the cut and thrust of day-to-day business if one is competing with people who don't need to make the same return on investment as you do - it's hardly a level playing field.

SLIDE Fragmentation

And to emphasise that point, this chart brings home the fundamental difference in industry structure between Australia and the Old World. In France, Italy and Spain less than ten per cent of production is in the hands of the top 5 producers, In Italy it's under 5. And look at the importance of the Co-ops - producers whose mentality, whose raison detre is so far removed from that of the average Australian producer. Somewhere between forty and fifty per cent of all wine in these three countries comes from Co-ops who have in total two-four hundred thousand members.

Laid on this is the concept of regionality. I get concerned when I hear people, particularly New World producers, making sweeping comments about France, Italy or even Spain. There is not one market - there are a number of regional markets which obey different rules from each other and in terms of success and failure, are often in very different places from each other. Crucially the premium and mainstream sectors are not linked, there is no ladder. Therefore what impacts the mainstream sector may have no impact at all on the premium sector – which as I'm about to explain is at odds with the Australian model.

What this implies is this: The main challenge for Australian premium wine is that the old world which dominates the premium sector in terms of sales and, I would say, mind set has significant competitive advantages and unless one understands the constraints these advantages imply then significant headway will be difficult to acheive.

Specifically there are two constraints which are inextricably linked.

The first, I've already alluded to. The Australian proposition is a ladder and a varietal based ladder at that. One can get Chardonnay or Shiraz etc at every price point and it's overt on virtually every label. This was a huge plus, and represented not just a revolutionary way of marketing wine but an entirely rational way of encouraging trading up - wine for every day, wine for special occasions and often with the same brand endorsement - therefore the rungs of the ladder were clearly signposted.

SLIDE Ladder in Quicksand

But the success of this strategy is dependent on the image at the lower end of the ladder staying strong. What we have now is a ladder that's in effect standing on quicksand. And research I saw not that long ago shows that the consumer is no longer buying into the Australian ladder - those that buy Australian mainstream wines tend to move out of Australia when looking for premiums. A very different story from say ten years ago.

And in addition, the varietal led strategy implies that Australia competes with anyone else in the world selling the same varietals and if any of these become a commodity then that's an even greater problem.

Look at France in comparison, the premiums are generics: Burgundy, Bordeaux, Sancerre, Chablis. The consumer, in many instances, is not even aware of the varietal and the trade are as a general rule quite comfortable promoting old world regionality - and provenance - and why not? Whatever the criticism the appellation systems get they are regarded as pretty integral to the complexity of the wine range and thus the inherent added value of wine.

So the old world doesn't have ladders - the premiums can avoid any quicksand at the lower end and they are not varietal based propositions so they compete at a crucial level within their own appellation rather than globally. As some buyer said to me in a throw away line only a week or so ago: "the thing about new world wines is that they all compete with each other whilst in Europe wines compete within their own regions" - a simplification to be sure but one of the key dynamics of the wine industry is contained in that comment.

SLIDE KVIs

The second constraint lies around the concept of Known Value Items or KVIs. Once again this initially worked very much in Australia's favour. When the UK buyers in the late 80's were presented with the first Australian Chardonnay they had no reference point for it - it had no known value. They all knew what a Liebfraumilch, Valpolicella or Bordeaux Rouge should cost, as did the consumer. This was a huge constraint on old world brand building in those categories. But when Rosemount asked for a RSP of £4.99 and the sales and marketing pitch and the quality of the product appeared to justify that, then why not? And I should say that it is to Rosemount's eternal credit, as the early market leader (and there should be a statue of the person who made the decision in my view), that they did not position it at £3.99 (at which point they still would have made good money). Because it could be easily argued that the price positioning of Australia and relatively high profitability of Australian wine to a UK distributor and retailer followed from that decision.

Australian wines and brands then laddered up from that point and such was the rational approach to marketing that it became a major selling point that whilst one might have Chards or Shiraz Cabs at every price point, the quality differential was discernible.

However look where we are now. Australian premiums are linked to a somewhat jaded image of Australian wine as a whole which restricts their own image building efforts. The ladder also perhaps implies that if Australian wine is seen as coming from relatively big companies then it's quite difficult for individual producers to play the scarcity card even if the scarcity is genuine.

More importantly the old world regions to a greater or lesser extent have a known value which I would suggest bears in too many instances little relationship to the quality of the wine. Let's imagine that Bordeaux or Burgundy were unknown as wine producers and that today their wines were launched at a major trade tasting without any of the tasters in the room having any preconceptions of these regions. How many would command the prices they currently command? I'm not sure that the percentage would be that high.

Yet they do command these prices because they are judged by different standards - not just by the consumer but by the trade - the reference points are higher. They have a higher perceived value. We, in effect, buy in to the fact that this value is as much a reflection of their past. Their prices are also in effect a reflection of the success of images and status built over a long period of time (which of course they would never admit to calling 'marketing'). The value or image may be based on the bedrock of the sublime quality of a good number of wines which are global benchmarks but even the staunchest advocate of the old world would I think have to admit that there are too many wines trading on the quality of others or of the status of the region as a whole.

So my question is this: How on earth can Australian premium producers compete with this? And the answer is, if you try to do so head on then you are unlikely to succeed - depending of course on how you define success. Just trying to tick all the provenance boxes simply allows you to compete on the same pitch, but they are invariably going to win. On a more general note too, everybody is getting more professional, most producers are now getting the basics right. There may not be too many producers out there with 20\20 vision but there are far less "blind" ones. It's no longer enough to be "one eyed"!
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So what's the way forward? Ah well, easy to say, less easy to do!

The fact that the Old World premiums command the premiums they do reflects as I've noted the power of marketing as much as any inherent "quality". It reflects the fact that certain consumers and a large part of the trade have bought in to the old world wine culture. They have been seduced, in effect, by the wine and all the imagery that surrounds it.

And this is fine. I have absolutely no issue with this. Who could complain about being seduced? Sure I might get upset as an individual as I buy yet another disappointing bottle of expensive Burgundy but when it happens I just give a wry smile and say "hey that's Burgundy for you, the next one will be sublime". We have to accept that wine is an emotional not a rational purchase. Even for those of us in the know who are closer to being able to calculate the true value of the "liquid", I can't believe we are not prisoners of our history or of our experience. Is there really such a thing as a blind tasting, free of preconceptions? I have my doubts. And to the consumer, with the exception of the real connoisseur, wine is either a minor luxury at one level or a major luxury at another.

Let's not be annoyed that people may pay ridiculous sums say for average Chablis but won't pay half the amount for a much "better" Australian Chardonnay. Let's just understand why they do so and learn the right lessons from it. This is not to condone poor quality wine or indeed condone "rip off" pricing but merely a plea for a greater understanding of why people buy wine.

SLIDE Petrus

The key lesson I believe is that we need to be become as obsessed by the stories we tell around the wines; the personality and the soul we breathe into them as we tend to be about the wine quality or style and their provenance. We need to become obsessed too with understanding the consumers who pay good money for their luxuries and learn how to reach them.

When comparing different wines we need to look at it from the consumer's point of view. To state the obvious: few consumers choose wines after blind tastings. Not only are their choices influenced by more than the wine and its price but they are entirely comfortable that that should be the case. And to emphasise or illustrate that one only has to look at how we as individuals make purchasing decisions in other categories.

How many people choose a car or a motorbike solely on the basis of its functionality, how many people choose a restaurant simply for the food or the wine list, how many people who have an ipod chose it after testing out the functionality of the competition. We do not tend to make decisions based on one aspect of the mix. Even if that aspect is the product's primary function - and this is particularly the case for luxuries or treats like wine.

SLIDE Harleys

Now the danger is of course that when a marketing person like me starts talking like this in the wine trade the tendency is to believe that I must be covering up for something - I must be hiding average wine behind great packaging or some other kind of marketing puff. In other words, the feeling is that one can't have substance and style in the same proposition. We really do have to get out of that mindset. For a start I'm not sure how one would get truly sub-standard wines through the UK trade gatekeepers and secondly if substance and style is the best of both worlds why not reach out to achieve it? Let's make that our holy grail, not simply the search for the ultimate wine that a particular patch of terroir can achieve. Then we might find we can engage consumers on a different level altogether.

SLIDE Substance and Style

And this is even more important in Australia because as I've noted earlier, if you simply make good or great wine and in addition you tick all the provenance boxes in your marketing - this just gets you to first base. In fact it may not get you there at all. How many labels do you see which would really work if the consumer had actually visited the region or the vineyard or met the winemaker but how many UK wine consumers actually come here? You need to engage them in different ways or in additional ways to make your wines - your brands - stand out.

And you need to use new technology if you are not already doing so. The internet is the perfect vehicle for communicating wine to consumers. Not only does its flexibility allow consumers to take in as much information about wine as they choose but it allows you to communicate the personality of your brand to a carefully targetted audience and secure feedback which helps hone your proposition. It's also of course a route to market in its own right.

SLIDE Long Tail

Many of you may be familiar with Chris Anderson's "The Long Tail". In this book he argues that the internet (and I would add the fragmentation of the media) is breaking up markets into countless niches which allows every producer the opportunity to discover their niche at relatively low cost. Using examples in the entertainment industry, namely books and music, he notes the old 80\20 rule should be replaced by the "98" rule. There is a market in effect for everyone.

And so let me sum up my message this evening. I think I should start by reiterating that Australia has left an incredible legacy in the UK. The impact of the Australian category implied a revolution, unique in the modern UK wine trade and the fact that Australia has been the market leader for a number of years implies that you got your just rewards. But the revolutionaries of yesterdays become the grumpy old men of tomorrow...or in some cases today! Almost inevitably there is the onset of a mid-life crisis and irrespective of the latest supply cycle that's probably where Australia is now.

The approach that takes companies from A to B is quite often not the same approach that is needed to take them from B to C and Directions 2025 recognises that as an overview. However the devil in this case is definitely in the detail or should I say in the execution.

Marketing, or ultimately corporate strategy, is about creating and promoting points of difference not emphasising points of similarity. This is as true for brand Australia as for individual brands. Just by ticking as many provenance boxes as you can really just allows you to enter the world stage, you've really got to do more than that to have a chance of resonating in the UK market

Ah the power of seduction. It's fun to seduce and be seduced. Think how you get seduced in other categories when you are the consumer and relate that mind set to wine. It's ultimately an emotional purchase, a treat or indeed a luxury.

This implies not limiting your obsession to the product alone.

Tell stories, not tales, stories. Weave a web of personality. Breathe soul, make your brand work on different dimensions. Seduce your consumer before they even get to the wine, ensuring of course that the wine lives up to the expectations raised.

Style and substance are not mutually exclusive - strive for the best of both worlds

And more generally be rational but give the impression that you are not indulging in the marketing equivalent of painting by numbers. Australia was successful largely because it attacked the UK with sound business strategy backed up by the right product at the right time coupled with an irreverent and mould breaking attitude. But somewhere along the line, in fact it was at the time when the need to deal with the surplus got in the way of brand building and "personalities" kind of took a back seat, the perception of Australian wine changed. It all began to appear a little corporate and the proposition got out of balance given the heavy discounting at the mainstream end.

Now I fully accept that stock had to be moved and it’s certainly not for me to be overcritical. I’ve operated in that sector, I know the realities I’ve developed and sold BOGOFs and done so successfully. And now I don’t envy the position of the mainstream brand owners as you move from surplus to scarcity but the perception of Australian wine in the UK needs to change. It needs to recapture its youth or indeed to become a grumpy old man - it doesn't really matter. It needs an injection of personality, of irrationality. Some one once said that the best brands are love it hate it brands - as long as enough people love you what does it matter about the rest? In other words Australia needs to become a bit more edgy.

And so to conclude. This presentation as noted was not intended to cover even briefly the range of strategic issues which Australian producers need to consider when studying the UK market. For example I’ve made no mention of the increasing need for companies to be socially responsible - to be aware of increasing government concern about alcohol and how it’s promoted. I’ve also made no mention of the movement to reduce our carbon footprint which is gathering momentum at a furious pace given in particular the commitment of the leading supermarket groups.

I haven't talked either about the developments in the various routes to market in the UK or about the competition to any detailed level.

What I’ve tried to do is to encourage you, particularly those of you involved in premium wines, to consider your competitive position in the UK in perhaps a more fundamental way. The Australian wine industry has always seemed to me to have a contradictory approach to the Old World. On the one hand you’ve delighted in giving it and the global wine scene a good kick up the backside but on the other hand the top wines and regions of the old world have in many ways remained your mecca; you sometimes appear drawn to them like a moth to a flame in terms of what they represent; and that’s fine up to a point, but if you really want to make headway I would suggest you need to adopt a more individualistic and less deferential approach.