

The only way is up

Adapting to the consumer shift to more premium wine

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For a long time Australia has positioned itself as a producer of consistent, reliable and good value-for-money wines. This strategy has been successful for several years, but the scenario has gradually changed with consumers demanding more premium wines.

Australia has struggled to adapt to this shift, partly because of some structural changes that happened over the last few years (e.g. the appreciation of the Australian dollar, and the increase in competitiveness of other wine-producing countries (Anderson 2015)), and partly because of Australia's image. So, what can we do to change our position and what products are more suitable to support this new deal?

First, we need to embrace the idea that the purchasing patterns for luxury brands are not much different from those for regular products. Luxury brands sell to more than just wealthy people. While wealthy people buy more luxury brands more often than average-income earners, the latter are greater in number, which means that middle-class people buy more luxury products in total than billionaires. This doesn't mean luxury brands sell to everybody, but they compete in the mass market (Romaniuk and Sharp 2015). This idea is quite different from the mainstream marketing approach, as it is often said that the secret for success in the luxury field is to strive for exclusivity and rarity. Sjostrom (2013) and Romaniuk and Sharp (2015) provide support for this idea. The former analysed wine purchases in a large French supermarket chain, while the latter collected data in the US and China in 2015 for watches, champagne and luxury clothing. In summary, the studies revealed that the purchasing patterns for regular wines are similar to prestige wines, and luxury brands largely compete for mental availability (and most likely also

physical availability) just like regular brands. Therefore, penetration (i.e., having more customers) does nothing to depress demand, because even though this reduces a brand's exclusivity, the positive effect of higher mental availability counterbalances it.

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Secondly, no one brand, no one product is by default 'cheap', nor 'luxury'. After a month of not drinking alcohol, an \$11.99 wine can be an extraordinary product – as much as a

\$700 plus wine could be considered as an everyday wine for a billionaire. Every product, every wine, constantly fluctuates on a continuum where the locus of luxury changes every time. Several factors are able to influence the position of a product along this scale and they include, but are not limited to, the consumption occasions, the purchase locations, and people consuming the product (Berthon *et al.* 2009). Therefore, it is important that we increase the consistency of the message we communicate to our potential customers and improve the perception of all consumption occasions and locations. We cannot afford to claim that Australian wines are premium and they should demand higher prices, if consumers can find wines too-cheap-to-be-good on supermarket shelves. We should also dignify all the occasions and locations where wines can be purchased. If every single wine-producing country tries to become the wine of choice for expensive restaurants, business dinners or engagement parties, we are all going

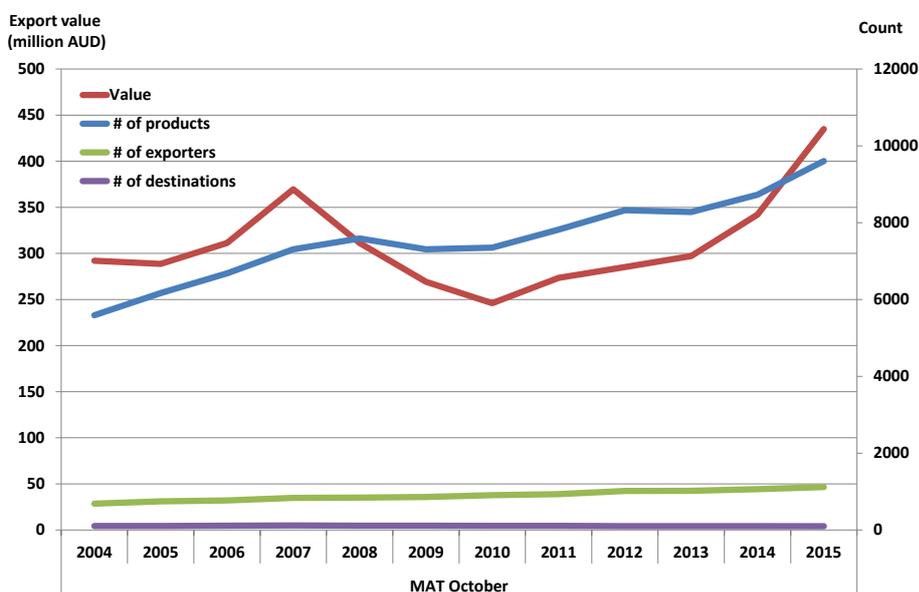


Figure 1. Key metrics for Australian exports above \$10 per litre FOB. Source: Wine Australia

to fight over a small portion of the market. Conversely, if we improve the perception of buying wine in a discount store, at a drive-through bottle shop, or for a relaxed dinner at home, we are going to open the doors to a much wider market, where Australian wines can deliver the promise of being reliable and exciting at the same time.

Having luxury wines in a portfolio makes sense on two fronts. First is the potential for greater revenue and, secondly, to increase the perception of the other wines in portfolio. As we've already stated, the definition of 'premium' is subjective, however, for the purposes of this analysis we have classified premium wine as any wine exported above \$10 per litre free on board (FOB).

From a revenue perspective, premium wine is an increasingly important and lucrative segment of the market to be in. 'Premiumisation' trends are well entrenched globally and Australian exporters of premium wines are capitalising on this trend. Australian wine exports above \$10 per litre FOB are currently at record levels and growing rapidly – up 27% to \$435 million in the year ended October 2015. Furthermore, more and more wineries have been recording sales success with their flagship wines. The number of exporters shipping these wines increased over the past year by 5% to 1117, while the number of products in this segment also increased, up 10% to 9604. Conversely, the number of destinations that received these wines has declined from a peak of 113 destinations in 2009 to 98 destinations in 2015.

China (up 61% to \$120 million) and Hong Kong (up 25% to \$89 million) have been the primary contributors to the growth, but they are not alone. The US, which had been Australia's major destination for premium wines, has found a base over the past four years and is tracking upwards – albeit at a moderate pace. Of the 24 top destinations, 22 recorded growth in the premium segment and 17 of those destinations recorded double digit growth.

Marketing theory suggests that premium goods can create a 'halo effect'. This is where the consumption of the premium good and a favourable experience improves the perception

Table 1. Top variety claims above \$10 per litre FOB by region (year ended October 2015). Source: Wine Australia

Geographical region	Top ranked varietal claims	Export value (AUD FOB)	Value change (%)
Asia	Shiraz	96,063,193	18
	Cabernet Sauvignon	75,540,152	52
	Cabernet Sauvignon/Shiraz	64,789,327	90
	Shiraz/Mourvedre	24,909,706	44
	Shiraz/Cabernet Sauvignon	6,911,552	-7
	Chardonnay	6,517,356	1
	No label claim	5,573,609	4
	Pinot Noir	4,202,768	12
	Merlot	3,980,428	25
	Cabernet Sauvignon/Merlot	3,915,053	-8
North America	Shiraz	29,410,620	5
	Cabernet Sauvignon	7,968,536	19
	Chardonnay	2,157,161	29
	Cabernet Sauvignon/Shiraz	1,780,116	-9
	No label claim	1,485,797	-6
	Grenache/Shiraz/Mourvedre	1,428,627	47
	Shiraz/Viognier	1,351,306	37
	Shiraz/ Cabernet Sauvignon/Merlot	1,259,942	-24
	Grenache	715,350	119
	Pinot Noir	664,430	8
Europe	Shiraz	17,758,321	16
	Cabernet Sauvignon	3,868,352	9
	Chardonnay	3,562,028	-19
	Pinot Noir	1,985,091	10
	No label claim	1,645,018	-3
	Cabernet Sauvignon/Shiraz	1,512,478	16
	Riesling	1,085,963	3
	Grenache/Shiraz/Mourvedre	821,796	3
	Grenache/Shiraz/Merlot	780,585	18
	Merlot	737,837	250
Rest of World	Shiraz	6,611,711	-10
	Cabernet Sauvignon	1,996,979	144
	Chardonnay	1,384,727	50
	No label claim	1,127,972	13
	Cabernet Sauvignon/Shiraz	611,656	139
	Grenache/Shiraz/Mourvedre	516,023	152
	Sauvignon Blanc	436,514	28
	Cabernet Sauvignon/Merlot	324,528	DNE
	Chardonnay/ Pinot Noir	312,737	67
	Pinot Noir	290,831	544

of all products by the same company or country of origin. Calculating solid figures of the potential of the 'halo effect' is difficult. What is evident though is that there is a clear relationship between the perception of a country's wine and the average import price of that wine, although it does raise a possible 'chicken or the egg' conundrum: Is perception high because

French wine is typically expensive, or is French wine expensive because the consumer has a higher perceived quality of that wine? Figure 3 illustrates that as perceptions of a country's wine increases, the average import price of that wine increases. This is a simple analysis with few data points, however, the trend suggests that if Australia's perception was to increase to equal that

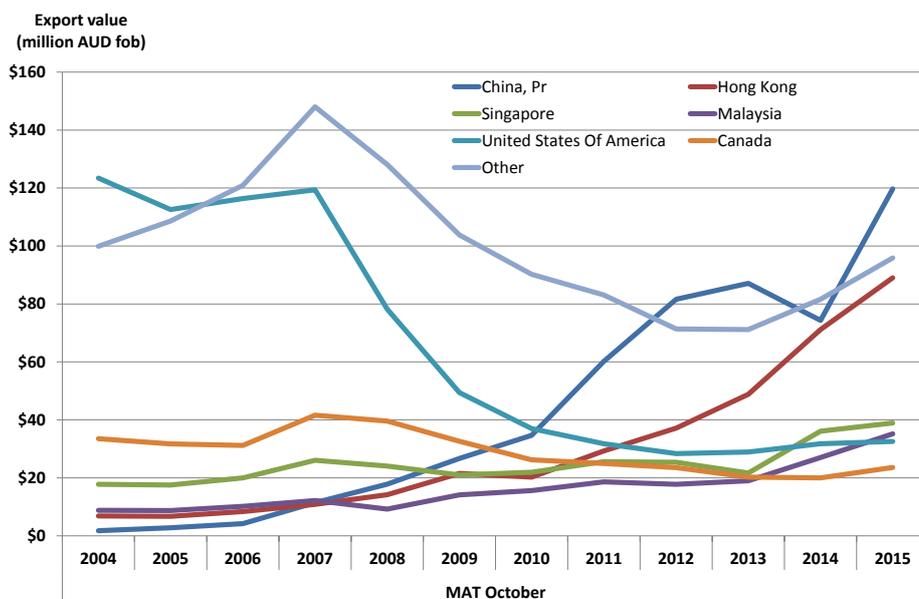


Figure 2. Australian exports above \$10 per litre FOB by destination.
Source: Wine Australia

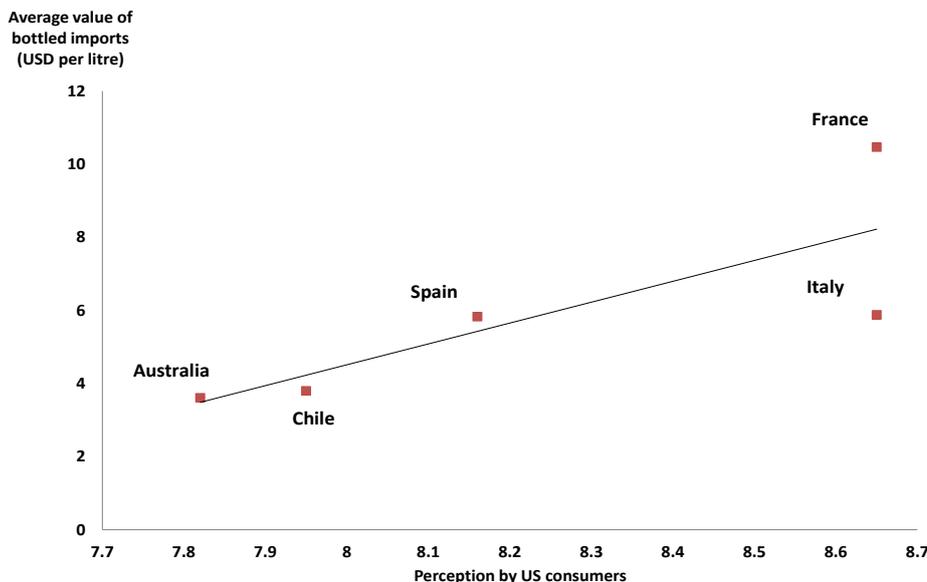


Figure 3. Perceptions vs average import price by source.
Source: Global Trade Atlas & Wine Intelligence

of Chile, average bottled import prices could conceivably increase by \$0.73 per litre. Based on 2014 figures when the study was undertaken, this would equate to an additional \$80 million in export revenue.

Wine Intelligence and retail data show that US consumers view Californian wine almost as favourably as they do Italian and French wine. This is despite Californian wine having a lower average retail price due to large volumes of entry-level wine. This demonstrates that consumers look past the entry-level wines to focus on the high end when a high-profile region is present. In this case the wines from

Napa Valley and Sonoma have a much higher impact on consumer perception than the cheaper wines coming from Central Valley.

So, what products or varieties are currently selling well? The results vary across the regions (see Table 1). The first insight is Shiraz is easily the leading variety in all regions, Cabernet Sauvignon is second. However, throughout Asia exports of Cabernet Sauvignon and Cabernet blends exceed that of Shiraz and Shiraz blends. After the various mixes of Shiraz and Cabernet, GSMs and Pinot Noir are the most popular reds. Interestingly the data also shows it's not necessary

to label premium wine as a variety – however, labelling as a variety is the standard practice.

White wines struggle to fetch the high prices that red wines can attract. Just 7% of export revenue above \$10 per litre is from still white wines compared with 91% for still red wines. Despite the skew towards red wines, Chardonnay is a top three seller in North America and Europe and ranks sixth in Asia. Riesling also ranks in seventh position in Europe.

Table 1 illustrates that Shiraz is Australia's flagship variety. In North America, after years of decline, Shiraz has recently shown some positive trends – up 5% in the past year. The variety has also grown strongly in Asia and Europe. In Asia, Shiraz's crown is being challenged by the rise of Cabernet Sauvignon. Although straight Shiraz is exported in greater volume than straight Cabernet Sauvignon, when the blends of each variety are included, Cabernet Sauvignon exports exceed Shiraz exports. Although Australia's claim on Shiraz should not be ignored, if Australia can raise the profile of its Cabernet Sauvignon there is potentially high returns in large markets. For example, the market for Cabernet Sauvignon above US\$15 per bottle is 26 times the size of the equivalent for Shiraz and the evidence in Asia is illustrated in Table 1.

Australia has the know-how and the products to look up without fear. We have no reason to envy France, Italy or Spain in terms of quality, but we would benefit from higher customer perception. We need to believe this change is possible and we need to work in that direction to make it happen.

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