

The 9(+1) talking points about the Australian wine retail sector



By Armando Maria Corsi, Senior Research Associate
Ehrenberg-Bass Institute for Marketing Science, University of South Australia.
Email: Armando.Corsi@unisa.edu.au

Armando elaborates on his recent presentation to the Australian Wine Industry Marketing Conference held in Adelaide in which he highlighted some trends in the wine retail sector in Australia and offered some ideas on how to increase sales in this area.

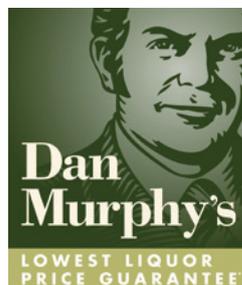
Australia is notoriously an export-driven market, with approximately 60% of the total production shipped overseas (Euromonitor International 2015). Of the 40% staying in Australia, around 80% by volume and 52% by value is sold off-premise (Euromonitor International 2015), making this distribution channel strategically critical for the wealth of the Australian wine industry. I would like to describe in this article some facts happening in the Australian wine retail sector to show how the sector is currently trending, and understand what strategies we can implement to minimise the issues and increase the chances of success for Australian wines in the domestic retail sector.

LIQUOR RETAILING IS GROWING

The sector is trending well overall, with an annual average growth of 3.1% between 2011 and 2016. Wine is the second most valuable product, responsible for a 25.5% share of the total value (\$9.9 billion) produced by the sector in 2015. The future of the sector is also positive with a forecasted annualised growth of 2.8% (IBIS 2015). Probably the main factor altering this forecast is going to be the tax reform on alcoholic beverages, which was proposed in 2010 in the report from the Federal Government's review of Australia's future tax system, led by Ken Henry, but it hasn't been ratified yet.

WINE RETAILING IS CONSOLIDATING

In the last 10 years we've seen a consolidation of the Woolworths-Coles duopoly. The two retail giants are now responsible for 64% of wine sales



by value (IBIS 2015), up 5% since 2005 (Wine Intelligence 2015), while independent retailers shrank from 41% to 36%. Woolworths and Coles have been able to strike more favourable agreements with alcohol producers, leading to price cuts independent retailers have struggled to match. In order to curb the fall, several independent retailers have joined retailer banner groups, such as Cellarbrations, IGA Liquor, etc., allowing them to generate some economies of scale they weren't able to create before.

MARGINS ARE NOT THE ONLY FACTOR RETAILERS CARE ABOUT

Goodman and Habel (2013) investigated the factors retailers value when choosing the producers and products they want to work with. The questionnaire was distributed to large retailers, independents liquor stores/bottleshops, and fine wine stores. The aggregate results show that 'margins' is the number one factor, followed by the actual price the wine can be sold for, and the fact that the managers/staff members like the wines. However, a different picture emerges when the results are broken down by type of retailer. For fine wine retailers the taste of the wines is the key selection criterion, to a point where almost all other factors become virtually irrelevant. For large retailers, on the other hand, although 'margins' is still the number one factor, it is a combination of factors that ultimately determines the choice of producers large retailers are going to work with. Other factors include price points, customer requests, advertising support from the producers, and the presence of medals or awards for the wines. The choice criteria for independent retailers seem to reflect the aggregate scenario.

2015 HAS BEEN THE YEAR OF CHAMPAGNE, SAUVIGNON BLANC, AND SHIRAZ

Champagne grew 14% by value, while white cask wines (-6%), other sparkling wines (-5%), red cask wines (-5%), and fortified wines (-5%) reported a loss. Red bottled wines increased by 5% in 2015 over the previous year, almost reaching the value of white bottled wines, which remained stable over the last 12 months. Sauvignon Blanc and Shiraz are the two most valuable grape varieties with reported growth of 4% and 15%, respectively, compared with 2014 (Wine Australia 2015).

IF CONSUMERS HAVE TRIED YOUR WINE, THEY'RE GOING TO BUY YOU

Having tried a wine previously is the key choice driver for wines in Australia (Goodman *et al.* 2008). This might not sound extremely revolutionary, but it still works as a significant reminder of the fact that it is important to offer trials and make wines consumers like. The act of buying wine, particularly premium wines, is risky. Nobody wants to spend \$30-50 on a bottle of wine and be disappointed by the taste later on. Trials and likeability are so important that the second most important choice driver is, in fact, recommendations by other people. This tells us that if one consumer hasn't tried a wine directly, it would still be enough if somebody else had tried it, and could act as an advocate for the product. We then have a ballpark of factors including grape variety, origin of the

wine, brand name and medal/awards – somehow the ID card of a wine – which are still relatively important, but definitely less than recommendations. Food matching suggestions, the information contained on back labels, information on shelves and the attractiveness of front labels are relatively unimportant. This shouldn't come as a surprise. In contrast to the majority of readers of this journal, many people don't want (or just do not care) to know much about wine; they just want to buy something they like, which brings us back to the first point mentioned in this paragraph.

REPUTATION, QUALITY AND AUTHENTICITY ARE KEY FOR THE CHOICE OF PREMIUM/LUXURY WINES

In the January/February issue of this journal, we argued that it is important for Australia to shake off the cheap-and-cheerful image and steer firmly towards building a more premium image (Corsi and Rowley 2016). But, what does premium mean for Australian consumers when it comes to wine? It essentially comes down to the reputation and trustworthiness of the brand, and the quality of the wine (Sjostrom *et al.*, In press).

WINES SOLD FOR LESS THAN \$12 ARE IN DECLINE AND GROWTH HAS COME MOSTLY FROM IMPORTED WINES

The majority of Australian wines are sold in Australia for less than \$7.99. However, wines in this price range recorded a loss of 4% in 2015 over 2014, while wines priced between \$8.00 and \$11.99 went down by 6%. At the same time all other price categories were either stable (\$12.00-15.99) or increased (\$16.00-24.99: +5%, >\$25.00: +11%). Imported wines followed a similar pattern with the highest growth recorded for imported wines priced between \$16.00 and \$24.99 (+12%) and above \$25.00 (+15%) (Wine Australia 2015). These changes can be mostly attributed to three factors: the depreciation of the Australian dollar, a progressive move by Australian consumers towards higher quality products, and a fading effect of the wine glut that has pushed down prices for around a decade.

THERE IS AN ALTERNATIVE TO PRICE PROMOTIONS

Price promotions are used by retailers to generate instant and consistent sales uplift, which ultimately helps them meet their target volumes. However, price promotions have several negative effects (Sharp 2010) which require us to understand whether there is an alternative way to promote wines without touching prices. The Ehrenberg-Bass Institute conducted a study across 60 stores of a national Australian wine retailer measuring changes in sales before, during and after the introduction of non-price promotional tools. These tools were shelf talkers displayed in front of some selected bottles of wines, and banners displayed at the entrance of stores. The promotional material communicated either about the regionality of wines or their environmental friendliness, and the content was communicated either as a combination of words and logo, or just words. The results showed that the regional shelf talkers generated a higher sales uplift than the environmental ones (+27% and +17%, respectively). Words-only shelf talkers were more effective than words+logo shelf talkers for both the regional (+45% and +10%, respectively), and the environmental

(+27% and +10%, respectively) shelf talkers. Finally, banners communicating the environmental friendliness of the wines generated a sales uplift of 36% on the bottles displaying an environmental shelf talker (Corsi *et al.* 2013).

WHEN IT COMES TO THE WAY IN WHICH PEOPLE PURCHASE WINES, THERE ARE SOME REGULAR PATTERNS REPEATING ACROSS MARKETS

Wine purchase patterns have been extensively analysed in Australia (Jarvis and Goodman 2005, Jarvis *et al.* 2006, 2007a, 2007b, Cohen *et al.* 2012), Italy (Casini *et al.* 2009, Corsi *et al.* 2011, 2014), and France (Cohen and Tataru 2011). The results across these markets consistently indicate that the key for brands to grow resides in attracting new buyers rather than selling more to existing ones. Heavy/frequent buyers are eventually going to stop buying your wines, if anything because they might simply get bored of repeating the same action. But if you're able to convince somebody who didn't buy you before to choose you, you're going to be on a stairway to success.

CONCLUSION

The Australian off-premise wine sector is in good shape. The consolidation of the market is likely to continue, but independents have started to find ways to defend themselves. A good wine is always an advantage: marketing is important, but if store managers like a wine, and if consumers like it too, your chances of success increase considerably. The real opportunity for Australian wines lies in the premiumisation of our offer. We have to be prepared for the fact that changes are not going to happen overnight, but this shift is going to pay off in the medium to long term. There's an alternative to price promotions. Everybody loves a good bargain, but make sure you discuss with your retailers about the possibility of including other forms of promotions than simple price cuts to your marketing plans. You can still increase your sales without jeopardising margins. And, finally, don't strive for loyalty, strive for reach. Heavy buyers are going to gradually fade away, but you can find somebody who has never tried your wines to give them a shot. And that still counts as a sale.

REFERENCES

- Casini, L.; Rungie, C. and Corsi, A.M. (2009) How loyal are Italian consumers to wine attributes? *Journal of Wine Research* 20(2):125-142.
- Cohen, J. and Tataru, D. (2011) The structure of the French retail wine market: a duplication of purchase approach. Paper presented at the 6th International Conference of the Academy of Wine Business Research, Bordeaux, France, 9-11 June.
- Cohen, J.; Lockshin, L. and Sharp, B. (2012) A better understanding of the structure of a wine market using the attribute of variety. *International Journal of Business & Globalisation* 8(1):66-80.
- Corsi, A.M., and Rowley, M. (2016) The only way is up. *Wine & Viticulture Journal* 31(1):59-61.
- Corsi, A.M., Mueller-Loose, S. and Lockshin, L. (2013) The value of non monetary-based retail promotions: Comparing an in-store experiment to simulated purchasing. Paper presented at the 7th International Conference of the Academy of Wine Business Research, St. Catharines, Canada, 12-15 June.
- Corsi, A.M.; Overton, S.R. and Casini L. (2014) The impact of the new wine common market organization (CMO) on behavioural loyalty toward product attributes: a case from Italy. *Journal of Consumer Behaviour* 13(4):231-241.
- Corsi, A.M.; Rungie, C. and Casini, L. (2011) Is the polarization index a valid measure of loyalty for evaluating changes over time? *Journal of Product and Brand Management* 20(2):111-120.
- Euromonitor International (2015), 'Wine - Australia', available at <http://www.euromonitor.com/wine-in-australia/report>.

euromonitor.com/wine-in-australia/report.

Goodman, S. and Habel, C. (2013) Australian off-premise: what influences their wine buying decision? *The Australian & New Zealand Grapegrower & Winemaker* 598:98-100.

Goodman, S.; Lockshin, L.; Cohen, E.; Fensterseifer, J.; d'Hauteville, F.; Ma, H.; Sirieux, L.; Orth, U.; Casini, L.; Corsi, A.M.; Jaeger, S.; Danaher, P.; Brodie, R.; Olsen, J. and Thach, L. (2008) International comparison of consumer choice for wine: a twelve country comparison. Paper presented at the 4th international conference of the Academy of Wine Business Research, Siena, Italy, 17-19 July.

IBIS (2015) Liquor retailing in Australia, available at <http://www.ibisworld.com.au/industry/default.aspx?indid=398>.

Jarvis, W. and Goodman S. (2005) Effective marketing of small brands: niche positions, attribute loyalty and direct marketing. *Journal of Product & Brand Management* 14(5):292-299.

Jarvis, W.; Rungie, C.; Goodman, S. and Lockshin, L. (2006) Using polarisation to identify variations in behavioural loyalty to price tiers. *Journal of Product & Brand Management* 15(4):257-264.

Jarvis, W.; Rungie, C. and Lockshin, L. (2007a) The polarisation method for merging data and analysing loyalty to product attributes, price and brands in revealed preference. *International Journal of Market Research* 49(4):489-513.

Jarvis, W.; Rungie, C. and Lockshin, L. (2007b) Revealed preference analysis of red wine attributes using polarisation. *International Journal of Wine Business Research* 19(2):127-138.

Sharp, B. (2010) *How Brands Grow*, Oxford University Press, Melbourne.

Sjostrom, T.; Corsi, A.M. and Lockshin, L. (In Press) What characterises luxury products? A quantitative study across three product categories. *International Journal of Wine Business Research*.

Wine Australia (2015) Australian wine sector state of play, available at www.wineaustralia.com.

Wine Intelligence (2015) Wine retail trends in Germany, UK, USA, Australia, Japan, France, Spain and Italy', available at <http://www.wineintelligence.com/wp-content/uploads/2015/03/Wine-Intelligence-for-ProWein-Wine-retail-trends-8-countries-presentation.pdf>.

WVJ



moore
mcphee

WHS Consultants

- Specialising in the review, development and implementation of safety systems suitable for small and medium sized businesses, risk assessments and behavioural safety.
- High value advice at a low cost. Moore McPhee WHS will beat any genuine quote (conditions apply).
- Servicing all areas including all rural and Hills areas.

Available 24/7

P 1300 362 351



vanessa.moore@mooremcphee.com.au
www.mooremcphee.com.au

Copyright of Wine & Viticulture Journal is the property of Winetitles Pty Ltd and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.