

A price too far? ...OR NOT FAR ENOUGH?

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Penfolds hasn't been shy about putting its prices up in recent years. Or launching new products with breathtaking price tags. Why can some wines ask these prices and others not? Larry Lockshin reports.

The latest release of Penfolds' wines seems to have caused a minor ruction due to the ever-increasing prices of some of the Bin series. The scores and notes for Grange place this vintage as less than the best, yet the price has remained unchanged. The release of the special Bin 170 (for the 170th birthday of Penfolds) at \$1,800 has caused some eyes to open and some tongues to wag. The recent Bin releases covered both good years (2010 and 2012 mainly) and the poorer 2011 vintage. Nonetheless, some of the 2011 Bin series wines had higher prices even with lower scores than the 2010s.

Penfolds is not the only winery raising prices even as the wines themselves do not seem to be much if at all better. As well, there is more competition at all price points in the market. So, the question is: what is the right pricing strategy for high-end wines? Of course there is no single answer.

Why do buyers pay high, even exorbitant prices for some wines? The simple obvious answer is the exclusivity and image that buying such wines provides. But why can some wines ask and receive these prices and others not? It is not just limited production, because there are many low production wines not charging high prices and some of the most expensive Bordeaux are produced in quite large quantities. Another answer is the track record of long life and further development in the bottle, even if the buyers themselves won't cellar the wine for very long. It is very

difficult for newer wine regions and wineries to charge extremely high prices without much history of aged wines lasting and even improving. The ability to age is one hallmark that cannot be imitated in the short run. It provides a real, testable measure of exclusivity and even more so a strong signal of the length of investment and worth for a wine.

Penfolds clearly trumpets the ageworthiness of its top wines, and like the other top wines in the world, holds tastings and events to underscore this point. The recorking clinics are another outward signal of the long life attributed to their wines and running them in key centres around the world a very good reminder to collectors to consider buying their wines in the future. Few other Australian wines can make these claims.

This may explain some of the difference in pricing between Grange and other contenders for Australia's top wine. Yes, a few wineries have thrown prices similar or even higher than Grange on a wine here and there, but typically a combination of not much stock and low-grade publicity make these ventures short-lived in buyers' minds and either bought out or forgotten after the initial release. Another issue is few of these newer wineries have the range of wines to utilise the halo of the high priced wine well. Another issue is list prices and discounting.

List prices are just that – recommended retail prices often used to send a message of the company's own value of the





wine usually in its own hierarchy – but with the knowledge the market price will be less. Already the big retailers are marking down the Bin releases of Penfolds' wines substantially below the RRP. But the prices are hefty even after the big discounts. Only a few wines, like Grange and Bin 170, have little to no discounting, which tells us the truth about this kind of pricing, especially for wineries with a hierarchical range of wines. Top wines are not discounted because the demand is there at the set price. And these wines create a halo effect on the other wines in the range, boosting the brand awareness and making the lower-priced wines attainable symbols, both satisfying the buyer's need for image and quality as well as the winery's need to sell more wine. This strategy requires a substantial amount of wine of varying, but high quality to execute properly. Too many wineries start their hierarchy at too low a price, so the lower end is not only easily attainable; it has no intrinsic brand worth. The lower end wines compete on price and not on quality. I understand Penfolds will be reducing and eventually eliminating most of its low range wines under its brand. Even at present their strategy of adding only to the hierarchy of the bin series protects the halo and allows price rises throughout the range without having a 'price competitor' at the bottom end.

So what are some pricing strategies for Australia's highest quality wines? There is a plethora of wines priced from the high \$40s to the \$80s. A few years ago, many of these wines were priced around \$35-\$50. First, don't be afraid to raise the price of wines that sell out, that have some history of aging and of quality over the long term. As the prices go up, you have to ignore the complaints of existing buyers, who are now priced out of the market.

This is a difficult choice and means a strategic decision of whether to live with this negative feedback or to maintain existing pricing and customers. Many wineries choose to use a multi-year plan to raise prices. It may reduce some of the complaints, but the end point will still be the same – abandonment by some existing customers and the need to attain new customers.

Many of the top wineries with a good track record over a period of years are now selecting their best parcels and creating exclusive wines with higher prices. This is a good trend but it will take time to establish the quality and aging life of most of these wines. However, establishing an icon above the existing top wine should not reduce the quality of the wines below it in price. Otherwise the halo strategy can't work. At the same time, managers should consider the brand name on their lowest priced wines. Is the quality and style consistent with the top wines? If not perhaps, the lower-priced wines should be rebranded. I believe one of the barriers to extending the highest prices is the same name on wines in the price competitive range of \$10-\$18. Our research shows almost no customer overlap between these low priced wines and the highest priced wines. Even though high price wine buyers do buy in the lower price tiers, they don't seem to buy the same brands at lower prices as they do at higher prices.

We now have wines with aging history, maybe not to rival Grange, but this will come as well. More wines with high prices will help Australia grow its image and sell more wines at all price points. There will be a hue and cry from our domestic consumers, who will abandon many of the wines they bought for special occasions, but others will take them up and overall it will help Australia increase its quality perception in key markets, like China and eventually the US and UK. ■