



D I V I D E D WE F A L L

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WE CAN'T MAKE EVERY WINERY AND GRAPEGROWER HAPPY WITH OUR TAX OR EVEN OUR MARKETING STRATEGY. BUT WE CAN REALISE THE POSITIVE IMPACT WORKING TOGETHER CAN AND WILL HAVE.

A few years ago I wrote an article about the two wine markets: the one for commercial or beverage wine and the one for fine wine. These different markets have existed for literally hundreds of years, as local wines were grown and sold to local people through local outlets, while fine wines were purchased by the wealthier elites both nearby and exported to other regions and countries. I pointed out that those buying inexpensive beverage wines were not the same people buying more expensive fine wines. Some people who buy fine wines do buy beverage wines, but the same is not true in reverse. For someone spending \$8-\$10 on a bottle of wine, a special treat is about \$15 or a bit more, so higher-end reserve wines do not add any halo effect to the brands for

most commercial wine drinkers.

At one point Australia seemed to have three kinds of wineries: very large, mainly corporate wineries (with some family wineries), which serve the low end market plus some high end wines; and medium sized and small boutique wineries, which tend to serve the middle and higher price points only. Now, the business models are more diverse. We still have corporate wineries, though fewer and larger. Some family wineries have grown substantially and the others maintained their large size. Medium-sized wineries were counted out in *Strategy 2025* and associated documents, but many have developed viable business models and have done well in recent times. We still have an abundance of small wineries ranging from hundreds to 10,000s of cases. We also

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have virtual wineries: companies buying grapes, having them custom processed, but marketing them. We have private label (custom crush) producers and bulk wine producers. Among these types of wineries, we have many business models from direct to the consumer in-house, direct to the consumer using channel partners, online sales, discount online sales, and of course the mix of retail stores (including their websites) and on-premise. And we have various mixes of the above. We have wineries selling solely domestically and wineries selling almost entirely overseas and everything in between. I may have missed some other business models but you get my point.

The point is that the current hot issue of the WET tax and discussions about support mechanisms for the Australian wine industry can never be solved to everyone’s satisfaction. There are too many different business models out there. I’ve been an Australian long enough to become a member of a footie club and to remember the introduction of the WET tax and the rebate and to see the fast growth and then slow decline of parts of our industry. I have seen the early emphasis more on commercial wines and establishing the Australian wine category in key export markets. I have seen the change to focus more on regional wines, and now the latest strategy from AGWA to focus even higher up the price scale to icon wines. The intent with the last two (regional and icon) is to build a large positive halo downwards to the larger volume Australian brands.

The fast growth period of the late 1990s and early 2000s depended on our large brands establishing the Australian category in grocery and discount store chains. Category establishment there was supposed to lead to establishing higher-priced categories in fine wine stores and on-premise wine lists. It worked to a degree as Australia became the fashionable wine country in many markets. It is hard to say if it was the trade or consumers who first lost faith with Australian wines at the same time as the exchange rate became more and more unfavourable and Australian wine companies seemed to reduce efforts in these key export markets. Some research I did with a Masters of Wine student a couple years ago showed that wine consumers were less and less aware of Australia and especially of Australian Shiraz in the US market. There was less on the shelves and wine lists and the downward spiral of low awareness and low physical availability continued.

There is a slight turnaround starting, with sales and prices starting to rise slowly. It’s hard to determine if these green shoots are the result of the recent focus on Australia’s higher priced wines in key export markets or drops in the exchange rate or both. Recent data shows growth to be in different price points in different countries. For example, the UK market is

growing slightly at higher price points and also at the lowest price points (mainly for bulk wine to be bottled there and then sold across Europe). The US market continues to contract with no volume change but a drop in value. This indicates the strong focus on commercial wine brands in that market is not really helping. Some people think wineries have stopped visiting and trying to grow the market. The efforts in Canada and China seem to be creating positive outcomes. The Free Trade Agreements in Japan and Korea also are beginning to show some positives.

What is the way forward for the whole Australian wine industry? Domestically we must remain a united industry, even though there are basic disagreements among different players. If we are disunited, the Federal Government will do what they want and ignore us in any future developments. The wine industry will lose a seat at the table to help determine its future regarding taxes.

Internationally, we will benefit from creating a strong halo image about the quality of our higher-priced wines. Promoting our lower-priced commercial wines as an industry is not going to make them any more competitive with similar wines from other countries. Of course brand owners do and should promote their brands, but focusing on these lower-priced wines is not the best course for Wine Australia.

Here at the Ehrenberg Bass Institute for Marketing Science, we have conducted a range of projects on country image and its relation to category and brand image. These images are linked, especially for people who do not have much knowledge of the wine category. So, the Tourism Australia campaigns coupled with Wine Australia’s and the many individual wineries out promoting their wines all help build a strong national and regional brand image. Bordeaux and increasingly Burgundy have profited from lots of publicity about their fine wines, even though most consumers only buy the lower-priced regional versions. The halo from icon wines, high prices, awards, etc. affects trade buyers and high involvement wine buyers. More Australian wine on the shelves has a strong impact on sales. Awareness of the quality and relative value of our higher-priced wines not only creates this halo, but also feeds profitable sales back into our wineries. This helps us survive and then grow.

We can’t make every winery and grapegrower happy with our tax or even our marketing strategy. But we can realise the positive impact working together can and will have.

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