

ACROSS THE DITCH

TRADING PLACES



IT'S ONE OF THE TOUGHEST TIMES FOR THE NEW ZEALAND WINE INDUSTRY WITH PRODUCTION EXCESSES AND MARKET DYNAMICS CREATING RISKY AND VOLATILE TRADING CONDITIONS. WHILE MOST WINE NATIONS WOULD CONSIDER IT A BEAR MARKET FOR SELLING WINE, NZ IS STILL BULLISH ABOUT ITS LIQUID ASSETS AND SEEMS BETTER PLACED THAN MOST FOR A STRONG RECOVERY. IN THE FIRST OF THIS TWO-PART FEATURE MISHA WILKINSON REPORTS ON THE BIENNIAL NEW ZEALAND WINE EXPORTERS' FORUM HELD RECENTLY IN BLENHEIM, MARLBOROUGH, AND THE OPPORTUNITIES THAT LAY AHEAD FOR NZ WINE.

Just when the US claims the position as the world's largest wine market with 330 million cases consumed last year – a market forecast to be New Zealand's biggest opportunity for Pinot Noir exports – the NZD/USD exchange rate hits crisis point. Soaring 75% from a 0.49 exchange rate in March 2009, the Kiwi reached .86 at the end of July. Yes our currency has officially reached nosebleed heights against the greenback and exporters are facing the consequences. In fact the Kiwi has 'outperformed' all of its 16 most-traded currency peers and has even surged 8% against Australia's currency since the beginning of March. With NZ's biggest trading partners being the UK, Australia, then the US, these rampant currency fluctuations are creating serious fiscal pain for exporters.

Added to the exchange rate woes, the 2011 harvest was an unexpected 328,000 tonnes with 23% more grapes picked than the previous year despite more modest forecasts. Spin doctoring positioned this increase as a response to higher wine sales over the preceding year (11% higher to be exact) and the subsequent need "to rebuild inventory and to support current and future sales", according to Philip Gregan, CEO of New Zealand Winegrowers (NZW). With predictions of 7% sales growth over the coming year (ending June 2012), Gregan still believes wineries can proceed with "cautious optimism". However he says, "Profitability levels remain an ongoing concern and recovery of winery and grower incomes should be a focus for all industry participants in the year ahead."

Global consumer concerns

With tricky trading and increased inventory, NZ wineries were keen to hear the latest global consumer insights from Michael Walton, executive director for Consumer/Business Intelligence for Nielsen Pacific, who was a speaker at the Exporters Forum. Walton, whose oratory skills could make even a bank statement sound riveting, compared findings from the UK, US, Australia and NZ and it was no surprise that the biggest consumer concern in three of the markets was the economy, with petrol prices coming in second. Only in Australia was the focus somewhat different. Utility bills topped the Aussies' issue list and oddly in second spot was a concern about their "work/life balance". It naturally followed that only 20% of them thought they were in a recession (with most believing it would be over soon), whereas in other markets more like 80% believed they were in a recession. As Walton undeniably concluded, "Aussies are feeling pretty relaxed at the moment."

In the UK and NZ 30% of consumers have cut spending and are now buying cheaper brands of alcohol. In Australia it's 24% – slightly higher than the one in five who thinks they're briefly in recession, but they are open to daily seduction with that vast array of supermarket-owned brands. Surprisingly in the US only 12% of consumers have cut down alcohol or bought cheaper brands and that's a market that's just recorded 18 consecutive years of increasing wine consumption – just a pity their currency isn't worth much anymore.

On the topic of sustainability, about 60% of respondents across all markets believe it's important that companies are sustainable in their practices and more than 70% in all markets think it's important that companies are actually improving the environment by implementing sustainable programs. Given NZ now has 95% of both vineyard area and vineyard production that is sustainable, (with a plan to reach 100% by 2012), it has taken a leading position and one that should be leveraged. NZ wine already attracts a price premium and it's not likely that it could increase returns with consumers paying even more for their 'green chip' premium wine, but it certainly helps to put a hold on price slippage, it eliminates barriers for purchase, makes NZ more accountable, and hopefully that all adds up to some good dividends down the track.

Walton's findings on the types of information sources consumers used and trusted were very enlightening. As you would expect, only small percentages of people trusted ads in online search engines, with a third of consumers trusting

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