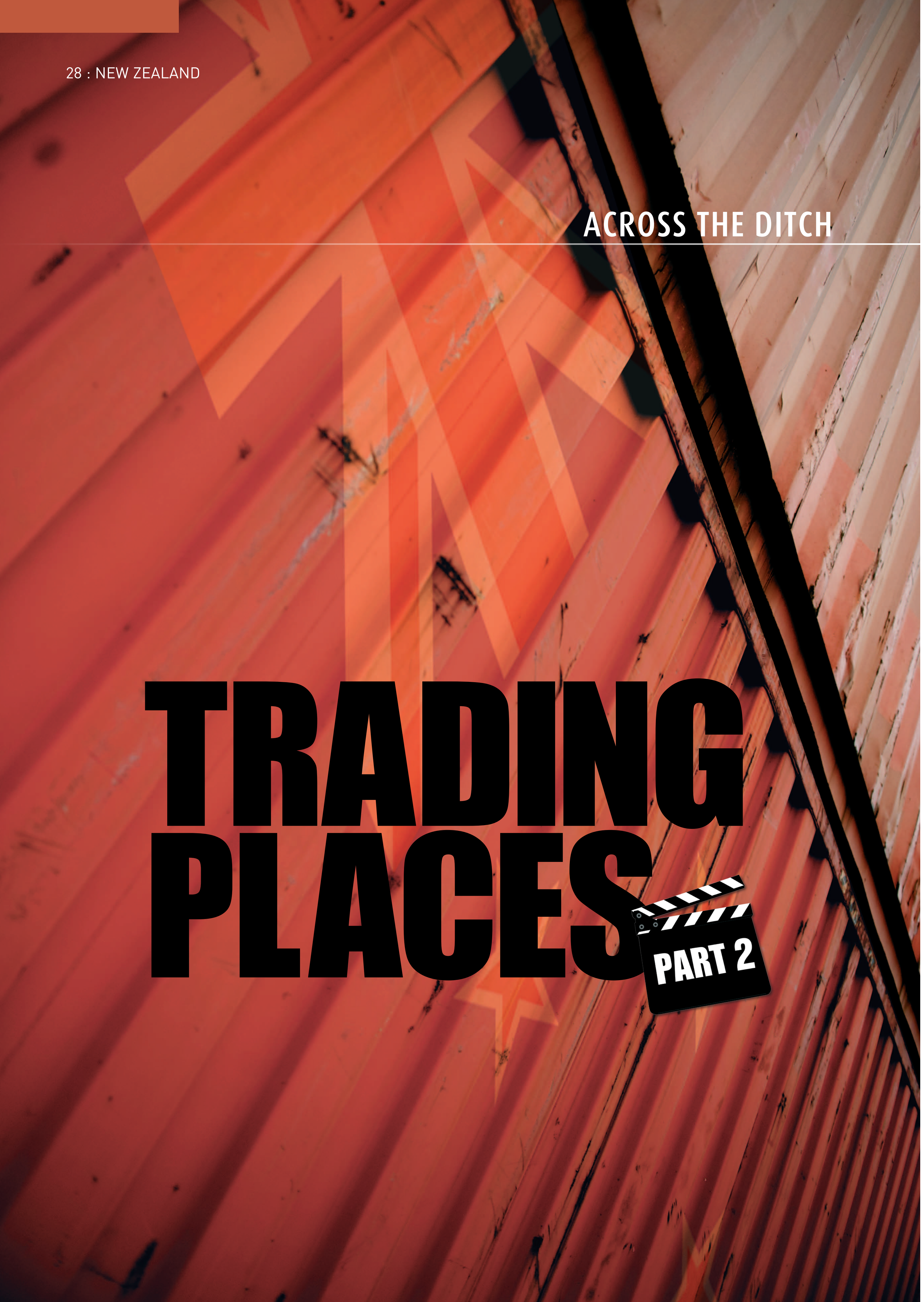

ACROSS THE DITCH

TRADING PLACES

PART 2

MISHA WILKINSON LOOKS AT EXPORT OPPORTUNITIES FOR NEW ZEALAND WINE IN THE SECOND PART OF HER REPORT FROM THE NEW ZEALAND WINE EXPORTERS' FORUM HELD IN MARLBOROUGH IN JULY. HAVING LOOKED AT THE OVERALL HEALTH OF THE UK, US AND AUSTRALIAN MARKETS, WHAT ADVICE DID THE FORUM SPEAKERS NOW HAVE FOR SOME OF THE OTHER MARKETS TO CHEER THE NEW ZEALAND WINE PRODUCERS IN THESE TOUGH TIMES?

New Zealand government agencies along with New Zealand Winegrowers, in an uncommon act of collaboration, investigated 11 countries in Europe to ascertain which ones might provide the best opportunities for profitable growth. Key selection criteria included the size of the drinking population, market value/volume and the acceptance to New World and New Zealand wine. The result was a triumvirate of markets – Sweden, the Netherlands and Germany.

Richard Halstead, co-founder of Wine Intelligence who conducted the research, believes the way to woo and win consumers at the premium wine segment across all three markets is to tell a good story, have some strong third party endorsements and then to present a compelling value proposition, so nothing too different to other markets. "Germany," he explains "is a very large market for cheap wine – but not solely cheap wine." Thank goodness for that, as it's Australia's fifth largest export market but at its lowest export price – a paltry A$1.31 per litre. Fortunately NZ is in a slightly better position there with wine averaging A$4.83 (NZ$6.10) per litre with Halstead forecasting that demand will continue to grow along with a trend towards more fruity and aromatic wines. But it's a market where those critical ratings from Parker and the like seem to be prerequisite. Also, sadly, the awareness of NZ beyond Sauvignon Blanc is virtually nonexistent with an almost "so what" reaction to NZ in general. Added to that, locally-made white wines are seen as better value and there's some confusion over what sustainability really means. So why is it a 'market of interest' for New Zealand? It's simple – there are nearly 28 million wine drinkers in Germany, with Halstead estimating that only 0.4 million are currently consuming NZ wines. He sizes the opportunity at 3.3 million potential customers for NZ wine.

In the Netherlands it's the fruity and aromatic wines again that are winning favour and there's also an increasing interest in the Rosé category. Halstead says wine selection is more based on varietal cues than country/region of origin and that purchase of premium wines requires reassurance of provenance and quality. NZ wines don't get much visibility across the market and there's little affinity with NZ as a country. The positives are that the wine trade who are starting to learn about NZ are getting excited about the price/quality equation and they believe there's an opportunity for increasing premium wine sales.

The third identified market is Sweden. "It's a market that currently has the greatest population of New Zealand drinkers despite being the smallest market," says Halstead. NZ wine currently averages A$6.66 (NZ$8.40) per litre and there's good growth in premium red wines as well as super premium white wines. The really good news is that the Swedes have a very positive association with NZ and in fact think they're a bit like them, so there's a feeling of being connected. Certainly NZ's sustainable farming message also resonates well in the market. "New Zealand is only a nudge away from breaking out into the mainstream in this market," says Halstead.

But if you're thinking everything is looking rosy for an all-out assault on Sweden, think again. Ulf Sojodin MW, head of category management at Systembolaget – the government monopoly which controls 417 wine stores across the country – explained that bag in box wines comprise a whopping 55% of the market. Although it's some of the most premium boxed wine in the world, it's still in a box. A little more positive news is that Sauvignon Blanc and Pinot Noir are the varietals most people are looking for, and even better news is the number of people looking to trade up with Sauvignon Blanc and get wines with some difference with lees stirring or barrel fermentation. The trick with this market is to ensure sustainability is a key part of the message along with lightweight bottles, reduced carbon footprints, organics and biodynamics – if you can make those claims, of course.

So in summary it sounds like there's a good opportunity in Sweden, but particularly if you have a biodynamic premium Pinot Noir produced in a wind- or solar-powered winery and packaged in a stylish brown box made entirely of recycled paper. (For some reason, that old bumper sticker 'Land Rights for Gay Whales' comes to mind!). And then of course you have to get a listing in the Government controlled stores, however there are ways of getting around this and Sojodin mentioned three German websites which ship into Sweden and avoid the Systembolaget – for example www.antiopodeswines.com.

There are certainly growth opportunities in Germany, the Netherlands and Sweden, but there are also a range of different challenges for each market. David Cox, director of Europe for New Zealand Winegrowers, also sees opportunities across the other Scandinavian markets (Finland, Norway and Iceland) where he says consumers tend to be "discerning, informed and adventurous". In fact Borge Brand, senior product manager at Vinmonopolet Norway (with 259 stores) sees a lot of potential at the medium to top range for NZ and says they have had a 400% increase in sales of NZ wine in the past four years. "New Zealand is a focus area for Norway now," Borge says.

China China!

Many wine producers have a view that if they just crack China, all their inventory problems will disappear – a market that can potentially create happiness – double happiness. The entertaining and optimistic Fongyee Walker, co-founder of Dragon Phoenix Fine Wine Consulting from Beijing, says "the road to market is still not easy" and warns that very few exporting wineries can make serious money in China today and that the potential for growth is very hard to predict.

Although China has a long history of wine consumption with evidence of wine in the Tang Dynasty, Walker says the market is in disarray with grey market issues as well as intellectual property issues (aka counterfeiting). There's also a lack of statistics and reliable market data. On top of this it's even hard to get consistent translations across the country for 'red wine' and 'white wine' let alone finding a translation to adequately describe pink wine.

The China syndrome is still very much a story of predominantly cheap domestic wine and even 50% of imports is bulk wine. And in China appearance is everything with packaging and labelling the number one factor in wine choice. "It's a case of 'face' more than taste," explains Walker. Results

from a supermarket survey that Walker conducted showed the biggest barriers to wine purchase were due to lack of knowledge followed by the dislike of the taste. It's also a market where 50% of total sales occur within two main festivals – Chinese New Year and Mid-Autumn Festival.

Walker explained that 53% of imported wine went to Tier 1 cities (Beijing, Shanghai, Guangzhou and Shenzhen) but she says the largest growth was in the second tier cities where there was a higher disposable income. When you consider that in China there are more than 80 secondary cities and over 300 tertiary cities (which are defined as over one million in population), you start to really understand the complexity of the market. Simon Zhou, a Shanghai-born New Zealander who now runs Ruby Red Fine Wine in China, provided some warning at the conference to those wine producers who love to say their wine matches Chinese food. "With 32 provinces and 52 ethnic groups, you're going to need to be a little more specific," he warns! Also, the younger generation who've had overseas education or work experience, and who are leading the demand for imported wine to show their new sophistication, don't normally drink their wine with food – it's consumed either before or after a meal.

However there are real positives in the market as Zhou pointed out. "It's a place where supermarkets don't rule the wine market, there's no three-tier system and consumers are relatively brand loyal," he says. China is currently the biggest export market for New Zealand wine in Asia.

Overwhelmingly online

After three days at the Exporters Conference, the overwhelming opportunity was about online sales. Whether it be in Australia, the UK, the US or Europe, it's the sales channel that people are increasingly using for wine purchase. Even in China, Zhou pointed out that online purchasing is big and growing as logistics are very good in China (although there's still a way to go in understanding temperature control). Building a good online presence for your brand is critical if you want to succeed.

Current state of play

Since the Exporters Conference the annual report from New Zealand Winegrowers has been released showing total wine sales increased 11% to 221 million litres (for year ending June 2011) with exports growing 5% to reach NZ$1.1 billion. But the strength of the New Zealand dollar against the currencies of major trading partners is creating havoc on profits. New Zealand Winegrowers continue to repeat the message that the larger than planned 2011 harvest just reflected the high demand for NZ wine and that there is only a perception of oversupply, however I can assure you the warehouses in my region of Central Otago are still packed to the rafters.

MISHA WILKINSON owns Misha's Vineyard Wines in NZ. Email misha@mishasvineyard.com