



# Neighbourly advice

Misha Wilkinson

**T**he 5th New Zealand Wine Exporters' Forum in Christchurch attracted 250 people from the wine industry making it the largest ever attendance at this biennial conference. And why wouldn't there be a record attendance? Exports have seen a 29% volume increase for the year ending June 2009 and a 24% increase in value. Stuart Smith, chairman of New Zealand Winegrowers, says that later this year NZ's annual wine exports will hit the NZ\$1 billion mark—up from NZ\$100 million just a decade ago. These statistics are impressive when you compare it with Australian wine exports for the same period, which had a 6% increase in volume and a 10% decrease in value (AWBC).

However, the optimism is tinged with a little hard reality and perhaps the increased attendance was also because wineries now have to walk a little smarter along the export path as NZ has encountered a number of obstacles not previously seen. These include a softening demand in some markets, concerns about NZ becoming too reliant on one particular variety—not to mention an overproduction of that variety of recent times—and a drop in some price points.

## Inspired by sheep—with a message to be different

The keynote speaker, perhaps appropriately for a NZ event, was someone who has redefined sheep! Jeremy Moon, founder and CEO of Icebreaker, whose Merino clothing products are now found in 24 markets around the world with sales of

over NZ\$100 million talked about setting yourself apart from competitors and building direct relationships. Moon's own success has been through redefining forms—he has redefined sheep and positioned Merinos as different, he redefined wool apparel to be something lightweight and cool, and he redefined adventure through spectacular photography. Moon's latest innovation is to redefine “baacodes” so any piece of clothing can be tracked back to where it was grown and by whom. Allowing consumers to connect directly with growers is a great example of his philosophy and the Icebreaker point of difference.

## Australia—punches well but lighter bodies preferred!

New Zealanders heard how their “big drinking neighbours punch well above their weight” when Monty James, NZ Winegrowers' representative in Australia, pointed out “the Aussies drink more wine per capita than the Kiwis or the Brits”. And Australians love NZ wine so much that they overtook the UK in the year ending June 2008 as NZ's largest export market by value, and by June this year, also by volume. James remarked that those Australians concerned about this increasing volume of NZ wine hitting their shores can take some comfort in knowing that “at least they beat the Brits—something they always enjoy doing!”

Put in perspective, sales of domestic wine in Australia still account for over 80% of wine purchases and NZ has 11% of Australia's off-premise market. Primarily this is Sauvignon Blanc with four NZ brands in the top 10 white wines sold in



Australia. But NZ isn't a one trick pony as Pinot Gris is the second fastest growing varietal, albeit off a small base and there's been a staggering growth of 47% over the past year for NZ red wine, primarily Pinot Noir, as Australians move towards lighter bodied reds. Philip Rich, liquor operations manager for three leading Melbourne restaurants, confirmed this trend for lighter bodied reds with his survey of four top restaurants where he found that 42% of all wine listed was Pinot Noir and 16% was aromatic white varieties.

Grant Ramage, liquor merchandise and marketing manager for Coles Group Ltd, (with 780 liquor stores across Australia and 27.5% share of retail wine sales), shared his thoughts on the wine retail market with the first revelation being that wine volume was growing at triple the rate of the rest of the market! The overall value of the wine retail market is \$3 billion, and it has grown nearly 4% in value over the past year and nearly 2% in volume. However Ramage says the issue with Marlborough Sauvignon Blanc is a lack of equity in brands, poor off-promotion sales, proliferation of weak brands, narrow spectrum of flavour, little reason to trade up, and the fact that leading-edge consumers have moved on while the wine writers and sommeliers are just disinterested! He says it's time to start differentiating the offer by focusing on sub-regions as well as alternate varieties.



From left: Grant Ramage, Coles Group Ltd; heads down at Christchurch Convention Centre; Stuart Smith, chairman of NZ Winegrowers; and sommelier Alessandro Marchesan.

### UK/Europe—prices holding, but more regionality required

Wine sales in the UK grew over 6% in the past year with NZ moving its share from 2.1% to 2.5% and taking 4% of the market in terms of value. Whereas Australia has the highest market share in the UK at around 22% but has gone backwards in value. David Cox, New Zealand Winegrowers 'new man on the ground' for the UK and Europe, explained that average UK bottle prices have increased slightly to around \$4.50 with NZ's average bottle price currently sitting at \$6.44—which is the highest average price per bottle in the market compared to Australia's average price per litre of \$4.46.

Pierpaolo Petrassi MW, senior product development manager for Tesco Stores Ltd, shared his latest insights into consumer preferences, explaining that the UK is also moving away from the fuller styles of wine and leaning toward the fruit-driven lighter New World styles. The UK has 68% penetration of adults who drink wine with 58% of them described as "regular drinkers" and an amazing 33% of them saying they drink Pinot Noir! Petrassi also talked about the rise of rosé which now holds a 10% share of the market.

At Tesco, which stocks 900 wines, has 33.8% of the UK's off-trade market and also boasts the largest wine club in the world with over 550,000 members, NZ holds an enviable position. Over 91% of NZ wine sells above their average wine price point—amazing given that NZ's 3.5% market share comprises 90% white wine. Other interesting statistics from Petrassi were that Tesco sells 50% of its wine "on offer", 77% of Tesco wines are \$5 or more, the average weighted price per bottle was \$4.14 (up 4% in the last year), 30% of Tesco's wine sales are 'own label', and Tesco's definition of wine is a "convenient refreshment".

Also sharing insights about UK dining

trends was Alessandro Marchesan, winner of the 2006 UK Sommelier of the Year. Marchesan says that with decreasing budgets for business entertainment there have been more opportunities for NZ (i.e. New World) wines on their lists as people look for value-for-money wines rather than the classic European wines. His key message was that NZ needed to focus more on regionality as Marlborough was the only region with any real awareness. He also believes there is a huge opportunity for Pinot Noir as opposed to the intense and loaded Australian Shiraz and cited Pinot Gris as "one of the trendiest wines on our lists". Marchesan's final word of advice was good news for NZ ears: "One last note about Stelvin closures, we love it. Customers are understanding and receiving



it well, so please try to bottle everything you make under Stelvin!" We're hearing you Marchesan—there's hardly a bottle out of NZ that isn't under screwcap these days!

### US—stepping on from Sauvignon and socialising

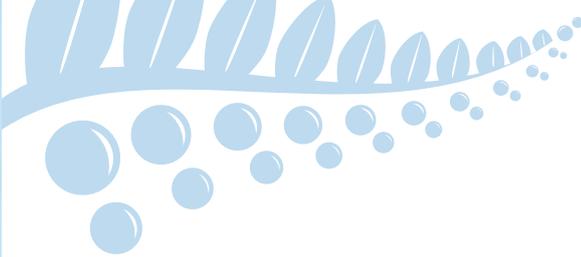
With a population of 300 million, the US is currently the third largest export market for NZ consuming 11.4 litres per capita. The big opportunity in the US is with the 70 million comprising the millennial market who choose imported wines 40% of the time and drink more Riesling, Sauvignon Blanc and Pinot Grigio. Predictions from NZ Winegrowers are for 89% growth in the US market over the next five years and it is expected to be the largest market for NZ Pinot Noir by 2011.

Providing a market overview was Chris Lynch, a twenty-year veteran of the global fine wine business, who these days dedicates his time to his own winery, Mutt Lynch Winery. Lynch explained that the top 10 wine companies in the US accounted for 82% of total US wine sales. He says the issue with the market is that there are 6,000 US wineries producing some 7,000 brands that squeeze through an estimated 550 distributors—half the number of 10 years ago. The biggest challenge as Lynch sees it is breaking through and getting a distributor, particularly now with increased consolidation and distributors dropping small brands. The best opportunities for small to medium-sized wineries may be the various direct-to-consumer models.

Lynch's "critical drivers" to competing in the US market included: not relying on distributors/importers to do all the work; investing in time and commercial budgets to 'add value' to the distributors' business; creating "champions" for your wines within the importer/distributor network; and focusing your activities in one market (i.e. one state) before adding another. He also



Lisa Perrotti-Brown MW. Photos courtesy NZ Winegrowers.



### Asia—New World pushing into tomorrow’s wine markets

Lisa Perrotti-Brown MW, the Asian correspondent for eRobertParker, provided an overview of the top four Asian wine markets starting with the biggest, and most idiosyncratic, Japan. Wine accounts for only 2% of alcohol consumption with a per capita consumption of just under two litres. Although the market is dominated by French wines, as is much of Asia, Perrotti-Brown believes there are big opportunities in Japan. It has a much higher split of on-trade versus off-trade wine sales (36%) compared to other markets and a newly introduced *Tokyo Michelin Guide* has further buoyed interest in fine dining in spite of the financial crisis.

China is the world’s ninth largest wine market by volume and the sixth largest wine producer—interesting statistics when the per capita wine consumption is only .51 litres and that only 1.5% of China’s total alcohol consumption is wine! It’s a market where red wine accounts for 75% of all wine consumed and, not surprisingly, it’s Australia’s largest Asian export market. By 2011, the Chinese are expected to be drinking more than 1.1 billion bottles of wine—double the figure in 2007.

There has been a lot of stimulation in the Hong Kong market of late with the abolition of wine duty, the first International Wine and Spirits Fair, the first *Hong Kong Michelin Guide* and a health trend that has been a catalyst for an increase in red wine sales. Perrotti-Brown also sees Singapore as a growing market as it acts as a hub for South-East Asia with about half of the wine re-exported, attracts some 10 million visitors a year

and is set for further tourism growth with the opening of two large scale casinos in 2010. NZ is already doing well in Singapore recording a 32% increase in exports in the last year.

### Social networking—get into the trenches and shake hands

Gary Vaynerchuk, one of the most dynamic and successful “new reality” wine entrepreneurs with a Wine Library TV video blog attracting over 80,000 viewers a day, presented via video in his inimitable “Vay-ner-chuk” style. He talked about the monumental shift in marketing that was currently taking place with social media: “If you think these vehicles are a fad, I suggest you sell your company!”

Referring to brand building as “a marathon, not a sprint”, his advice was to focus on brand not box shifting and most importantly to listen to what customers are saying about your brand and then to react. His advice was to set up a Facebook fan page, get onto Twitter and to “get into the trenches and tell your story—if you don’t do it, you’re crazy”. Vaynerchuk describes social media as “word-of-mouth on steroids” as it allowed you to virtually shake hands with people on the internet and have a direct relationship with consumers with the only investment being “sweat equity”. In terms of the landscape change that social media is having, Vaynerchuk says “Everything I believe in and everything I think is true, is only about 36 months old.”

*MISHA WILKINSON owns Misha’s Vineyard in New Zealand. Email: [misha@mishasvineyard.com](mailto:misha@mishasvineyard.com). WBM thanks Misha for compiling this report.*

felt embracing the internet was key and summed it up with “wineries need to get better at internet dating”.

Doug Frost MW, MS, who believes that “wine is a condiment meant to make food taste better” described the US restaurant scene as being in “freefall” with a 7% drop in fine dining independents. He said restaurant wine sales were now all about pricing, margins, promotions and private labels. He confirmed that Pinot Noir had been the fastest growing variety for the past three years and he described this trend as “moving to the Light”—or was it just sideways? Frost also says that Riesling is the second-fastest growing variety because of its application to food. But he believes NZ is missing opportunities by not leveraging the many places where Sauvignon Blanc is sold by the glass and the situation “is a bit like where Australian Shiraz was five years ago”!



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