

**ACROSS THE DITCH** WITH MISHA WILKINSON

# FILLING AMERICA'S CUP



The US market is held to be one of the great hopes for New Zealand's ultra-premium wine segment. As New Zealand's third largest market (mostly comprised of that pale yellow variety), the US sits behind Australia and the UK in total wine exports, but the prediction from New Zealand Winegrowers is that it will become the biggest export market for NZ Pinot Noir within the next year. MISHA WILKINSON reports.



Sherry-Lehmann store in New York.



Currently America's cup is only half full – per capita wine consumption sits at 9.7 litres putting it at similar levels to Macedonia, Malta and Iceland.

It's only half as much as the Aussies and Kiwis get through on average each year. So on the positive side, it means there's a lot of drinking that still needs to be done in the US! The US is the third biggest market by volume of all wine consumed globally, behind France and Italy, with predictions showing it will sail right past the other two countries to become the largest wine consuming nation by 2012.

Recent news out from the Beverage Information Group says American consumers defied the downturn to buy more wine than ever last year and for the 16th consecutive year reported growth, although it was mainly through domestic wine sales as imports were down. However, New Zealand is one of the few countries that continues to sail against the tide and grow its US sales.

Jon Fredrikson, president of Gomberg, Fredrikson & Associates, a wine consulting firm, told attendees at a recent New Zealand Wine Business Symposium that NZ wines had performed remarkably well in the US over the past two years in spite of the tough market conditions and reduced consumer spending. "New Zealand bottled wines surged by 236,000 cases, up 57 percent, to 650,000 cases through March," said Fredrikson. "This was remarkable because the average value of New Zealand table wines imported was over US\$66 per case, second only to France (US\$77 per case) among all major exporters to the US."

Despite all this good news, sales data shows that in terms of discretionary spending, consumers have embraced the idea of trading down to cheaper wines and searching for bargains online. And apart from this (hopefully) short-term foraging, the bigger issue is that the US market is phenomenally difficult to penetrate. The three-tier distribution system presents a complicated web of options and routes to market that require time and patience to understand before one is able to chart the most suitable course.

And forget those usual 4 Ps normally associated with marketing – product, price, place and promotion. In the case of the US, a different set of Ps seems more appropriate – penetration, perception,

position, but we still need to focus on pricing.

### Penetration – after the great financial fall

After a recent month-long trip to the US, I would have to conclude that so far it has been the hardest market to come to terms with and the most difficult in terms of finding potential distribution – and we've managed to conquer many markets across Asia, the UK, and even Australia! Trying to make contact with US companies by email doesn't seem to yield any response and even by phone with repeated daily calls, it only seems to work if you've got the determination of a dog with a bone. And then don't expect a call back unless you have a US phone number.

Jim Elder, vice-president of Marketing & Operations at The Sorting Table, an importer based in Napa, California, says, "One of the biggest issues is to get distributors to take on new brands. Wines above US\$20 used to sell but after the great financial fall anything above that just isn't selling." In spite of this, The Sorting Table still stays committed to premium brands (which include three from New Zealand) and just hopes the market will pick up again.

Elder says there has been a huge shift in the US from eating out to eating in. Their business saw a 50/50 split between retail sales and on-premise sales in 2008,

but in 2009 this changed to more like 75/25. He says Pinot Noir sales are still growing, however with the current market conditions, most of his current sales are more from the second labels of the brands he carries.

Given there has been so much consolidation of importers and distributors in the US, the issue of being able to find an importer who is then confident he can, in turn, get distributors on board in various states, means it's hard to even find importers currently who are open to signing on new brands. And for those premium New Zealand producers with pallets of Pinot piled up for purchase, the issue, as Elder puts it, is "the US market hasn't fallen in love with New Zealand Pinot Noir as yet".

### Perception – a case of influence and status

David Paterson is a Kiwi and currently the winemaker at Tantalus Vineyards in British Columbia, Canada, having also worked for wineries in NZ, the US, Australia and Burgundy. Paterson says the perception in the US is that although NZ wines are seen as very good quality wines with fruit-forward flavours, there's a feeling that perhaps NZ Pinot Noirs don't quite have the depth and range compared to the top Oregonian Pinot Noirs. That's an idea that Paterson dismisses outright and says those perceptions are all to do

Below: Dan Berger at the New Release Tasting in San Francisco.



with the bias that the US has towards domestic products.

“The issue is really that the sommeliers may think New Zealand wines are good but worry how they’re going to sell them,” explains Paterson. “Drinking high end New Zealand wine is not as prestigious as drinking high end American wine.” The solution is very clear to Paterson – “It’s the brand image and perception that needs work.” Perhaps the US is not that different to Asia – they’re both looking for status when it comes to wine. It’s just that in the US they want US wines and in Asia they want French!

“California and Oregon have done well with regional identification and brand image,” says Paterson, but he thinks the big issue is volume. “New Zealand needs a volume leader for premium Pinot Noir – like Cloudy Bay was for Sauvignon Blanc,” he says. In terms of wine styles, Paterson says the US palate does prefer higher alcohols, higher oak and bigger extracted wines – although in talking to many importers/distributors and sommeliers, they will all deny that their palate is like this! He also says that, “In the US, people are spoon-fed information – this is just the way it is. You need to suck up to the press – the influential press.”

Sailing the other side of the course is Lisa Shara Hall, senior editor for US

magazine *Wine Business Monthly* and also a Master of Wine student, who dismisses the idea that journalists are influential and believes that what is recommended in print rarely gets translated to sales! “Perhaps for collectors and those who seek status, the *Wine Spectator* and the *Advocate* (Parker) still carry weight. Other journalists don’t seem to matter,” she says.

Shara Hall says that in terms of status, “for most US drinkers, Burgundy is incomprehensible and too expensive. New World Pinot is what they seek, for varietal labelling, price and quality. It takes a knowledgeable wine drinker to reach for Burgundy. And Burgundy requires aging, which very few people are willing to do.” Her view is that Pinot Noir generally has been on an upswing in the US as many drinkers like the New World style and look for value and quality when making Pinot Noir selections from other countries. Shara Hall’s advice for NZ wineries is, “With Pinot Noir, go for its brightness, food friendliness and value – price has a definite influence.”

#### Position – the Kiwi on the corner

On the corner of Park Avenue and 59th Street in New York City, a most prestigious address just a couple of blocks down from Central Park, sits Sherry-

Lehmann, one of the highest profile wine stores in the city. The business, which first opened 76 years ago when prohibition was repealed, has only been in its snappy Park Avenue address for three years. More than 70 staff manage the store, the warehouse and fulfilment of their catalogue business which has six annual editions that reach hundreds of thousands of clients. The hangover from prohibition means there can only ever be one retail Sherry-Lehmann outlet, but that doesn’t seem to curb their business as they have a 60,000 square foot warehouse in Brooklyn and do 30% of their business online.

When I visited the store, 15 Australian wines were on display – with Yellow Tail flat on its back next to a Penfolds Grange with prices of US\$10.95 and US\$475 respectively. Whereas the 26-strong fleet of NZ wines in a multi-tier display attracted a much more premium location at the end section of the racks near the front door, and offered Sauvignon Blanc from US\$9.95 to US\$32.95 and Pinot Noir ranging from US\$13.95 up to \$US47.95. I wondered why it had an emphasis on New Zealand wines and then I met the contemplative Ken Mudford, the director of Inventory who has been with the firm for 24 years – a Kiwi!

With some 5,000 SKUs (of which only about 1,800 are displayed in the store), the US\$14 million of inventory is considerably bigger than the one Mudford managed when working for an Auckland wine wholesaler prior to him setting sail for the US. He explains that 25 years ago there were no NZ wines in the store and only one brand from Australia – Seppelt. During the late 90s sales of Australian wine were 5-10 times that of New Zealand wine, but these days 5-6 times more wine from New Zealand is sold compared to Australia. Mudford says that since 2005 there have been a number of factors that have really accelerated things for NZ, which include the *Sideways* movie impact and the increasing interest in Pinot Noir, the America’s Cup (remember New Zealand won it *and* successfully defended it), the inspiring NZ scenery in *The Lord of The Rings* and a general palate preference away from Chardonnay to Sauvignon Blanc. “All of these things have helped increase New Zealand’s profile and the interest in their wines,” says Mudford.

In terms of bottles sales at Sherry-Lehmann, more wine is sold from France

Below: Steve Smith MW, chairperson of the Complexity initiative.





than anywhere else, followed by domestic wine (mainly from California), and then Italy with NZ in fourth place (by volume and value) – which isn't a bad position to be in since NZ produces less than .5% of the world's wine production. Australia is now in ninth position on the ladder. He says sales of NZ wine is driven by Sauvignon Blanc which represents half of his NZ listings but he still records healthy Pinot Noir sales, although he says people don't come in specifically asking for NZ Pinot Noir.

Christopher Shipley, director of Sales and Marketing for VOS Selections, is also based in New York and works for an importer and distributor of small production artisanal wines from around the world including four NZ brands. His view is that NZ wines have a very positive image but the reality is most of NZ's growth is from "increased sales of 'value-priced' Sauvignon Blanc as most consumers are still stopping into a wine shop on their way home from work and looking for a US\$10-12 bottle of wine to have with dinner that night". This group forms the biggest segment of the market, but the other part of the market "which is heavily weighted towards New York City is made up of people who read the wine press and are much more status conscious – these folks will tend to gravitate towards European or Californian wines".

Shipley says most decent restaurants would include NZ wines but adds, "I think that the top end New Zealand wines are perceived as being expensive."

### Price – by name and by nature

In yet another New York Avenue business, you'll find Fred Price, senior vice president of Noble House Wines/Brix Brands – an importer and distributor who currently has just one New Zealand brand in its portfolio. "Many Americans, when asked about New Zealand, think it's connected to Australia. But once you get past that, I think Americans do have a positive perception of New Zealand and it is in large part linked to wine, not just beautiful scenery," says Price. He believes the increase in NZ imports is due in large part to 'value-priced' Sauvignon Blanc. "If you ask the average American consumer (if such an individual exists) what he drinks from New Zealand, it would be Sauvignon Blanc," says Price. "And if you ask why, the answer would be price and consistency of style."

Graduating from the Culinary Institute of America, Price initially worked as a chef but then did his wine apprenticeship at Windows on the World at the former site of the Twin Towers at the World Trade Centre. "In its heyday, Windows was always one of the top wine restaurants in New York, in fact in all of the US. "Many of the top US wine people got their start at Windows on the World," he says. Price later moved on to the famous Rainbow Room in Rockefeller Centre and then other top New York restaurants including Picholine, Le Madri and Union Pacific. "At each of these restaurants, we were awarded the *Wine Spectator's* 'Award of Excellence' for our wine lists. It is those experiences that helped give me credibility in the New York restaurant world when I made the switch from being a sommelier to working for Noble House Wines.

"Americans may talk status, but these days, the key is value. While we still like the most sought after, highly rated Pinot Noirs, and 1er Cru and Grand Cru red Burgundies, what most Americans are drinking in terms of Pinot Noir are value-driven wines. These are wines that can land on a retail shelf at \$20-\$25 US."

Price says Pinot Noir is the current darling of the US consumer. "They aren't falling in love with it, they've already fallen! And with the abundance of good quality Pinot Noir available in the US, this trend will continue," he says, adding the perception of New Zealand wines at the sommelier level is high. "But it's the pricing and the public's recognition that are the issues. While the quality of the New Zealand wines might be equal to an already established region, the perception is that because the region has less recognition, the prices should be lower."

### Pushing forward

Taking a new tack, a NZ\$1.2 million government-backed push into the US market has recently been announced to build the super premium wine category for New Zealand's billion dollar export industry. Known as the Complexity initiative, there are 21 NZ wineries onboard and a crew list of almost 60 wines with a launch date scheduled in September. The initiative is about promoting, building profile and encouraging listings for a portfolio of NZ wines with key influencers in the high-end restaurants and wine retail in the US

metro markets of New York, San Francisco and Chicago.

The funding, which is the largest ever single grant NZ wine has been awarded by a government agency, will be matched by a similar amount from the wineries involved. The selection of wineries to join the initiative was based on various criteria including the calibre of resources (people, time and money) that had been put into the US market; having established and strong distribution in the key markets in which the program will be focused; brand strength and track record in the luxury wine segment; solid support for sustainability as well as wines that were assessed as a varietal or regional highlight with an ability to create interest and contribute complexity to the portfolio. In the year ending December 2009, New Zealand recorded NZ\$214 million of wine exports to the US and this project is expected to drive additional direct sales for those taking part of NZ\$50 million by 2015.

Chairperson of the Complexity initiative is Steve Smith MW, Wine and Viticulture director of Craggy Range. "We produce fine wines in New Zealand, we believe it's a sector of the market in the USA that remains undeveloped for New Zealand wine – we believe it's a sector of the market that has significant long-term sustainability in terms of creating prestige and all the benefits that come from that," Smith said. "And we think the time is absolutely right to do it."

So it seems there aren't just 4 Ps that New Zealand will be focusing on in the US market as this premium wine initiative has a healthy proportion of Pinot in the mix. Let's hope this new plan sets a course that will get that 'Auld Mug' running over with premium New Zealand wine.

*"Still tough times for high end expensive wines ... don't see things changing very much for the balance of 2010 so a buyer's market will continue – this economy still is suffering." Robert M Parker Jr. (On Twitter on 28/07/10 as @RobertMParkerJr)*

*MISHA WILKINSON owns Misha's Vineyard Wines in New Zealand. Phone +65 9828 5735 or email [misha@mishasvineyard.com](mailto:misha@mishasvineyard.com)*