

Industry in ferment

Ten years of astounding export sales growth has set Australian winemakers up for an almighty fall

In 1996 the Australian government's wine authority set an ambitious 30-year sales target. Imagine its delight when that goal was reached a full two decades ahead of schedule.

Between 1996 and 2007 Australian wine forced its way into markets in a way rarely witnessed in any export industry. Nowhere was this more evident than in the UK, the biggest single market for Australian wine.

However, trouble is now brewing. Australian wine production is three times the level of 15 years ago, but global demand for it is tanking. In the UK, it dropped by 18% last year, in the US by 26%. According to Aussie wine critic Jeremy Oliver: 'The industry is in crisis – anything less than that is avoiding reality. It is interesting that nobody really saw this coming.'

Not quite true, Mr Oliver. Your humble columnist predicted these problems in an article I wrote for *The Sydney Morning Herald* in 2007. In it I stated that Australian winemakers were 'on the verge of an almighty strategic blunder'. Next year is shaping up to be disastrous for Australian wine and it's not too soon to learn some lessons.

First, don't rely exclusively on sales data to plan your strategy. Booming sales of huge fruity Shirazs and oaky Chardonnays were the prime drivers of Australian success. Many wineries looked at the figures, extrapolated their growth and made more of the same.

Unfortunately, sales data is a poor predictor of future consumer tastes. There is no replacement for recurrent

qualitative and quantitative research, and without these insights, Australian winemakers have found themselves producing wine that many consumers simply do not want.

Second, you can make sales from commodity wines for a while but not forever. While it has continued to generate enormous profits, the average price of a litre of Aussie wine has quietly plummeted from AU\$4.36 (£2.18) in 1999, to AU\$3.53 (£1.76) in 2008 and it continues to fall.

With irrigation costs and the Australian dollar rising in value, this commodification of wine spells disaster for winemakers who have continued to increase production at the expense of targeting smaller, more lucrative market segments, building more distinct wine brands and charging a premium for it.

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'We have had massive success with an approach of good wine and good price,' Tim Kirk, head of the Canberra-based Clonakilla winery, notes ruefully. 'However, in some respects that's been the seeds of our undoing.'

Third, don't get arrogant. Success has blinded Australian winemakers to the threat of South American rivals. Many producers still speak disparagingly of the quality of Chilean wines, despite the fact that these are now equally good, less expensive and usually made from more appealing varietals.

Lastly, beware an over-dependence on big retail. While it is impossible to be successful without selling through Tesco and Sainsbury's, you'd better have alternative premium channels at your disposal too. The fact that 85% of Australian wine sales in the UK are accounted for by supermarkets tells you all you need to know about the kind of margins and promotional tactics that Aussie winemakers have had to endure. It also helps to explain why prices are dropping so quickly.

As my Aussie wife likes to remind me, the better the party, the worse the hangover. Well, it's 7am and Australian wine is about to wake up after the mother of all booze-ups. It's going to take more than a couple of aspirin and a fried breakfast to get her back on her feet again.

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30 seconds on... the downfall of the Australian wine industry

■ 'We've seen growers who didn't bother picking their grapes this year,' says wine industry critic Stuart Gregor.

■ 'The Australian wine industry... is suddenly in what looks like a **perilous position**,' according to wine writer **Jancis Robinson**. 'Like so many wine producers outside Europe, it has **concentrated** its efforts on the **big retailers**



Australian wine cheaper than bottled water

in the UK and has **failed to build a solid distribution network for its better wines.**

■ 'There is a perception that the **American market** for Australian wine is in **serious jeopardy**,' says Jay Miller, Australian wine reviewer for influential newsletter *The Wine Advocate*.

■ The price collapse has forced Foster's, **Australia's biggest**

winemaker, which owns **Lindemans and Penfolds**, to **sell 31 vineyards** across the country. Constellation Wines Australia, the second-biggest player, placed 26 properties on the market last August.

■ One of Australia's big wine retailers, Dan Murphy's, is selling cleanskins for about **£1 a bottle - cheaper than most bottled waters.**