

wineIQ

WINE INTELLIGENCE QUARTERLY

Q4 2016 | Issue 3



Standing out and staying relevant
in the most complex of categories

Defining export strategies by ranking
the world's wine markets



Predicting the future in the Australian
wine market



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Richard Halstead
COO, Wine Intelligence

News

What's been going on in the world of wine & insights



After two successful workshops in Sydney and Melbourne back in February this year, April saw our Wine Intelligence Global Trends workshops once again take to the road in Europe and South America.

This interactive analysis of the latest global consumer trends drew upon findings presented in our Global Consumer Trends 2016 report and sought to examine the shift and development of these trends and explore what really drives consumer behaviour.

During the workshops, we explored how the trends observed across the lives of consumers can be applied to different areas of the wine category. Participants looked at how shifts in trends might impact wine, and what key factors will influence wine consumers in the future.

Below are a few of the highlights from our London, Santiago and Soave workshops:

STATS OF THE QUARTER

Latest findings from our reports

Japanese wine drinkers get involved:

% of Japanese regular wine drinkers (RWDs) who say they have a strong interest in wine



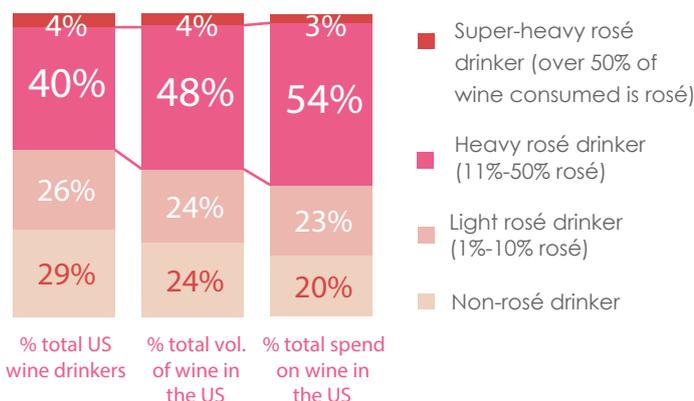
% of Japanese RWDs who regularly enjoy trying new and different styles of wine



Source: Wine Intelligence Japan Landscapes 2016 Report

US rosé drinkers splash out

Heavy rosé drinkers (those whose wine consumption consists of 11-50% rosé) spend significantly more than average on wine



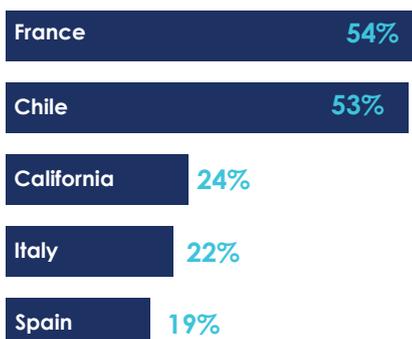
\$13.31
○ heavy rosé drinkers typical off-premise spend per bottle

\$20.72
○ heavy rosé drinkers typical on-premise spend per bottle⁴

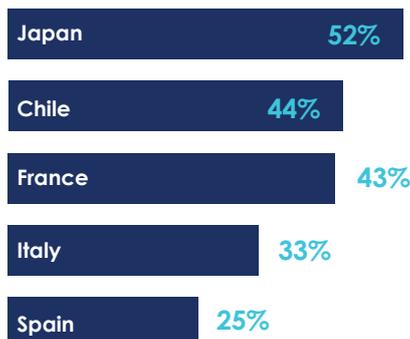
Source: Wine Intelligence Rosé Drinkers in the US Market 2016 Report

France and Chile are the most popular imported wine producing countries in South Korea and Japan

% of South Korean RWDs who have drunk wine from the following countries in the last 6 months



% of Japanese RWDs who have drunk wine from the following countries in the last 6 months



Source: Wine Intelligence South Korea Landscapes 2016 Report; Wine Intelligence Japan Landscapes 2016 Report

New innovations:

The Drop

Rosé wine in beer-style packaging capitalises on trend for 'brosé'

llegal

Beer and wine hybrid from Ventisquero fuses separately-made beer and wine



Baileys Almande

Popular Irish cream liqueur introduces vegan and gluten-free offering



Building a successful brand can be a daunting task in this most complex of categories. We look at some key questions for marketers to consider.

When thinking about launching a new wine brand, it's not hard to imagine the task that lies ahead in terms of standing out from the crowd when one considers the sheer scale of the competition out there. According to Wine Spectator's omniscient oenophilic superhero, Dr Vinny, even the number of grape varieties used commercially to make wine stands at around 1,300. Merely putting a figure on the number unique wines existing in the world—let alone persuading consumers to choose yours above all of them—can therefore seem a rather dizzying feat.

In order to forge a path ahead for wine marketers to help nudge their products into the hearts—and shopping bags—of consumers, Wine Intelligence have been hard at work on a research project headed by CEO Lulie Halstead, which aims to uncover the secrets to building successful brands in what is perhaps the most complex product category in the world.

“The sheer number of SKUs in the category is just one aspect which makes wine such a complex area when it comes to

“A wine brand is a product cue or set of cues given in wine packaging or information such as origin, grape variety, region, for which consumers search during their decision making process to differentiate wines from each other”

branding,” says Halstead.

“There's a social complexity, where often, as consumers, we're anxious about what our wine choices say about us as people, and there's an element of situational complexity, because we consume wine in lots of different places and for a multitude of different occasions.”

“And there's the complexity of the product itself in terms of varietals, vintage, terroir, blending, and all of the other things which make wine on the one hand so fascinating, but on the other, a potential minefield of choices from a consumer point of view.”

Even for people who love wine, making purchasing decisions is often something which induces confusion, irritation and uncertainty. As a result, it's often the case that consumers will use a variety of risk-reduction strategies to ensure that what they're buying is good value, and will match their taste expectations. Varietal or region will often act as proxies for brands, and as Halstead says, with wine, it's often the case that “the brand name isn't the hero when it comes to choosing what to buy.”

Indeed, the latest Wine Intelligence consumer data shows that in the US, half of all regular wine drinkers could only name one or two brand names when asked to recall the wine brands which come to mind in a situation where they would normally buy wine. Even when prompted with the brand name and symbol, US regular wine drinkers could only recognise 14 out of the 50 top brands on average, and could only recall purchasing an average 3.5 of those brands.

In a category where even involved consumers will so often use a product attribute other than brand to make choices, how do you prevent them from completely bypassing your brand name?

DOES BRAND PURPOSE MATTER?

For Halstead, it's imperative to know your brand's positioning and to know what you stand for. But she suggests that it's too easy for the typical corporate branding process to result in a lack of clarity.

"Spending a lot of time and money on away days, brand consultants and negotiating internally to come up with an intricate brand statement isn't always the answer. The results of a process like this can often end up feeling a bit artificial or outdated."

Instead, Halstead suggests that focus and simplicity are key to forming a positioning which reflects the heart and soul of the brand: "Ideally, you should be able to sum up your brand in three to five short, crisp and vivid words which are truthful, believable and most of all, single-minded."

It's also important to ensure that a brand's position is actually relevant, as what you think about your brand might yourself not easily transfer through to the consumer, and resonate with their own way of thinking.

Halstead says: "Based on the work we do with consumers, we've found that it's not enough to define your brand identity with ideas such as being traditional, family owned, or innovative, simply because they're such common positions to take amongst wine companies."

"They can be key pillars for your brand, but it's important to think about what they actually mean. Being family-owned, for example, could represent nurturing: whether that might mean nurturing your vines, nurturing your team, or nurturing your customers."

Ultimately for Halstead, when it comes to staying truthful and relevant, it's important not to get carried away: "There is a real value in thinking beyond the simple

CHART 1: BRAND EQUITY: VALUE AND POTENTIAL



Source: Wine Intelligence, Vinitrac © UK, 2016

"Consumers will have fewer doubts about a product's authenticity if it's sold through a major online platform."

functional benefit being offered, but also to realise that it's unlikely that your wine brand will change society."

WHO SHOULD I TARGET?

A key question for all brand owners to answer when determining their future strategy is whether to focus on retention of existing customers and creating a loyal user base, or to focus on acquisition, and trying to find new consumers.

Central to the influential theories of famed marketing scientist Andrew Ehrenberg is the notion of Double Jeopardy, whereby—perhaps surprisingly—smaller brands are never able to attract as much loyalty as a bigger brand, and are also less likely to draw favourable responses. Essentially, the Double Jeopardy phenomenon states that return business is a function of how popular a brand is, and thus, acquisition should always be the focus of a brand's growth strategy.

One might think that smaller market share brands are perhaps better positioned to target a narrower group of consumers and create high levels loyalty within a particular niche, particularly in the wine category with its many nuances and wildly differing levels of consumer involvement.

But Wine Intelligence research on the UK market suggests that Double Jeopardy seems to hold true with wine brands, with bigger ones enjoying both higher awareness rates and higher loyalty (chart 1).

Halstead explains: “Looking at the top 50 brands in the UK, bigger brands—not surprisingly—have higher awareness, but additionally, they actually have slightly higher conversion-to-purchase levels.”

“This suggests that a brand will be bigger if it has a broader pool of consumers, due to the fact that it’s hard to influence consumer loyalty—you can’t make consumers more loyal to you than they already are.”

One notable example of a wine brand that has seen huge amounts of growth is Casillero del Diablo. IWSR sales data shows that sales of the brand have more than doubled over the last five years, from 912,000 nine-litre cases in 2011 to nearly two million in 2015.

This growth is also reflected in Wine Intelligence consumer data, which shows that whilst just 2% of UK regular wine drinkers had purchased the brand in 2007, this had risen to 23% in 2016.

Interestingly, though, it appears that what has driven this growth is the huge increase in awareness of the brand. As recently as 2013, just 26% of UK regular wine drinkers had heard of Casillero del Diablo, but by 2016, this number had increased to 70% (chart 2). Conversely, though, the conversion to purchase rate is flat, suggesting that the brand’s growth hasn’t come from existing customers buying more.

For Halstead, the figures all point in one direction: “Driving awareness is your one goal as a marketer, as this is what will have the biggest impact on your brand growth.”

CENTRALITY OR DISTINCTIVENESS?

But when driving awareness to your brand is tough in a category where the functional benefits of each individual product often appear to be very similar, how do you determine where your brand fits in the mind of the consumer? Companies will face a critical brand positioning challenge: striking a balance between distinctiveness and centrality.

Dawar and Bagga’s centrality-distinctiveness mapping tool (chart 3) shows how there is often a struggle between two apparently contradictory goals when it comes to brand positioning. On the one hand, brand owners might want to stand out from the crowd and differentiate themselves from traditional products in the category. On the other, they might want to be central to the category, and be the brand that represents what the consumer expects from the category.

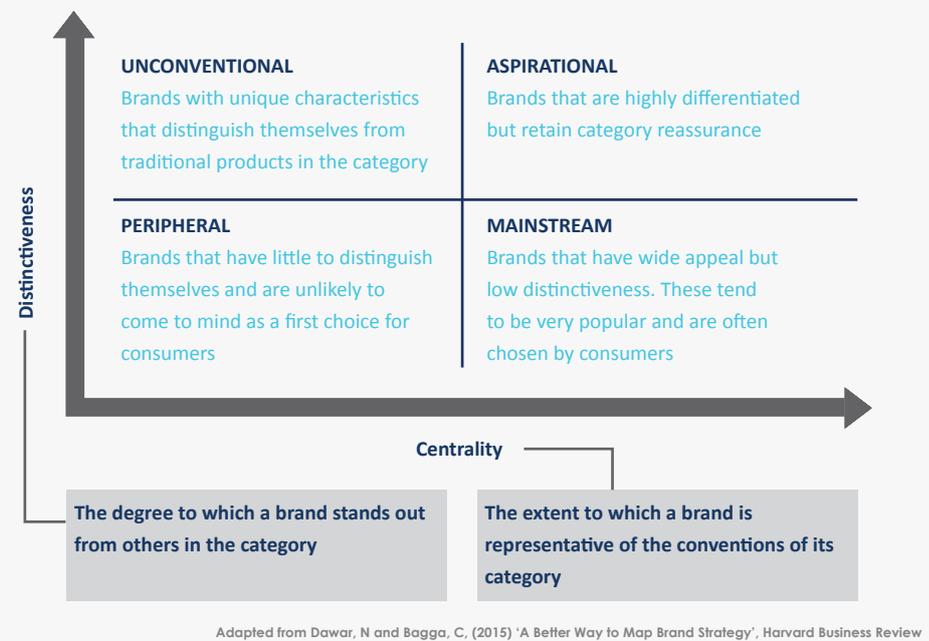
Therein lies the challenge of striking a balance. Move too far away from

CHART 2: CASILLERO DEL DIABLO IN THE UK



CHART 2: BRAND POSITIONING: CENTRALITY VS. DISTINCTIVENESS

Brands face a challenge in striking a balance between centrality and distinctiveness:



“Driving awareness is your one goal as a marketer, as this is what will have the biggest impact on your brand growth.”

expectations, and you risk alienating the consumer. Neglect to distinguish your brand sufficiently from others on the market, and it is unlikely to come to mind as a first choice.

Halstead believes that mainstream wine brands need to start by focusing on points of parity. “There needs to be enough there to reassure the consumer that it’s a genuine, quality product, because for a mainstream wine brand to get the required volume of market share, you need to appeal to a lot of consumers.”

“Then a brand can differentiate, bringing in elements that make a brand unique and memorable.”



Finding direction for wine exports

Navigating the complex challenge of allocating resources among export markets using the Compass market attractiveness model

Wine producers around the world struggle with the question: where should I invest my human and financial marketing capital for the best return? When domestic markets start to reach a plateau both in terms of size and growth, the obvious strategy is to export – but where to? How much should I invest? Many times the

decision-making process is driven by culture and geography – and many times those decisions are not the best ones available.

As a producer looks to spread its wings beyond the domestic market, there is an understandable tendency to zone in on a nearby country with similar culture and a convenient route to market. Typically, costs involved in the export process will be lower

for these destinations, including expenses paid for flights, participation in trade fairs, and product adaptation (e.g. label in local language, new branding, different types of wine etc.). Examples of trade flow between countries like this are plentiful: Argentinians and Chileans export to Brazil, Moldovan and Georgian wines are drunk in Russia, and New Zealand is the leading exporter to »

THE TOP 50

Most attractive wine markets in the world, according to the Compass model

Rank	Country	Score
1.	United States	6.46
2.	Germany	5.13
3.	United Kingdom	4.85
4.	China	4.83
5.	Switzerland	4.39
6.	France	4.20
7.	Japan	4.03
8.	Singapore	3.99
9.	Norway	3.90
10.	Canada	3.84
11.	Italy	3.84
12.	Australia	3.83
13.	Ireland	3.76
14.	India	3.73
15.	South Korea	3.71
16.	Denmark	3.71
17.	UAE	3.66
18.	Hong Kong	3.63
19.	Netherlands	3.59
20.	Sweden	3.52
21.	Austria	3.41
22.	New Zealand	3.40
23.	Indonesia	3.35
24.	Argentina	3.25
25.	Taiwan	3.16
26.	Finland	3.09
27.	Belg. & Luxemb.	3.05
28.	Portugal	3.05
29.	Poland	3.01
30.	Mexico	3.01
31.	Colombia	2.98
32.	Slovakia	2.97
33.	Czech Republic	2.96
34.	Slovenia	2.94
35.	Malaysia	2.93
36.	Hungary	2.86
37.	Turkey	2.86
38.	Philippines	2.85
39.	Vietnam	2.81
40.	Chile	2.79
41.	South Africa	2.71
42.	Romania	2.69
43.	Spain	2.67
44.	Peru	2.64
45.	Thailand	2.49
46.	Greece	2.44
47.	Brazil	2.41
48.	Russia	2.22
49.	Nigeria	1.79
50.	Angola	1.66

Classification key	
■ New emerging	■ Growth
■ Emerging	■ Established
	■ Mature

HOW THE COMPASS MARKET ATTRACTIVENESS MODEL WORKS

We evaluated the attractiveness of 50 wine markets based on a set of economic and wine market measures listed below:

WINE MARKET MEASURES

- Wine market volume and trend
- Imported wine volume and trend
- Per capita consumption and trend
- Wine market value, trend and unit price
- Wine drinking population and potential growth
- Market accessibility

ECONOMIC MEASURES

- Adult population size
- GDP per capita & trend
- GNI per capita
- Unemployment rate
- Corruption index
- Globalisation measure (no. of Starbucks + no. of McDonald's per capita)

A score of 1-10 for each measure is attributed to each market, and each measure is assigned a weighting, based on how significantly it impacts wine market attractiveness and the resulting calculations lead to a single final score for each market

MATURE	Markets where wine has reached its potential with stable or declining volumes
ESTABLISHED	Markets with strong historical growth which is tailing off
GROWTH	Markets where wine is becoming a mainstream product and experiencing growth
EMERGING	Markets where wine is growing and showing potential from a relatively low base
NEW EMERGING	Markets where wine is still a relatively unknown beverage, but showing potential

Australia.

But, is the 'obvious' option always the best option? Can we not find other markets where the producer's capabilities will have a greater impact?

Between the 1990s and the early 2000s, Australian wine producers asked the very same question that we are asking now, having been forced into considering the global market as a whole by the country's geographical isolation. By investing first in a wide scope of market insights, they analysed trends and opportunities which would fit best with their value proposition and capabilities, eventually arriving at their two target markets: the US, and the UK.

Their success story is well documented. Within a relative short period of time, Australia surpassed France to become the leading imported wine in the UK market, and now maintains a consumption volume that is consistently 1.5 times that of French wine. The same success was found in the US, where Australia has now held the title of second-largest wine importer for over a decade, at times even able to threaten the number 1 importer perch of Italian wine.

Not long after, Australia also became one of the first wine-producing countries to

focus on the Chinese market. The rewards reaped here are no less evident: ranked only behind France in terms of volume, Australian wine has been growing annually at double-digit rates (14% CAGR between 2011 and 2015).

The challenge of allocating resources in a sensible way whilst planning a multi-country export strategy, undertaken so successfully by Australian producers, was what first prompted us to produce the first edition of the Compass report back in 2014. Now in its fourth edition, the report compares opportunities in 50 of the world's most important wine markets and provides a simple way of categorising these different markets into cohesive groups.

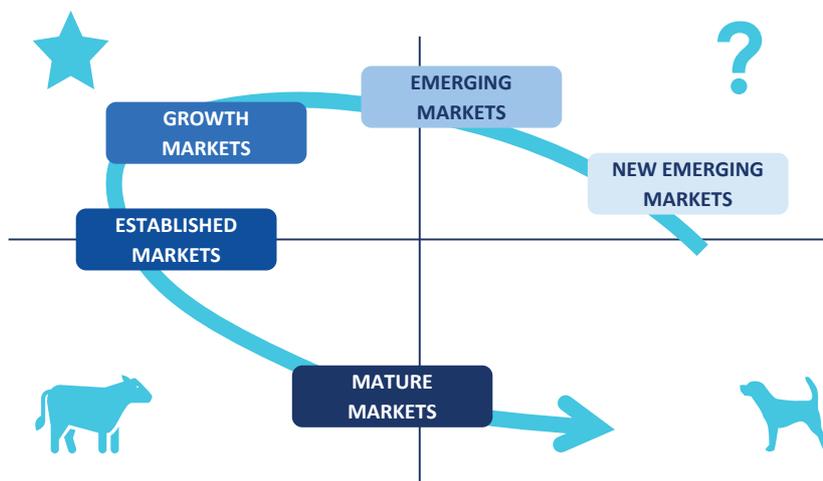
As far as overall rankings go, it comes as no surprise that the US is still the number one market in the wine world. China has shown great recovery and is now in 4th place, with imported wine consumption jumping 37%. A jump driven by economic recovery, new trade agreements between the country and Chile, Australia and New Zealand, and supported by an increasing urban population becoming more and more interested in wine. In contrast, Japanese consumption growth rates are still positive

APPLYING THE BCG MATRIX: INVESTMENT STRATEGIES

The BCG (Boston Consulting Group) matrix is a strategic tool based on the life cycle and development of products in the context of market growth and market share. The objective of the matrix is to explain the current situation for wine in different markets and give advice for investment decisions. The matrix defines four different stages:

- **Stars:** Highly profitable markets, where wine has a high and growing market share among all beverages. Stars generate cash, but need further investments to maintain the position.
Investment strategy: Invest and expect high returns.
- **Cash cows:** Markets with a high market share for wine and a slight growth or stagnation. Cash cows have a stable cash-flow and generate profits.
Investment strategy: Implement good pricing strategy and siphon off profits.
- **Dogs:** Markets where wine is in decline. Competitive markets with low or shrinking gross margins. However, they can still be interesting due to large volumes.
Investment strategy: Restructure the portfolio and invest only to meet specific needs.
- **Question marks:** New markets with a low market share for wine but experiencing high growth. Growth needs high investments, but with caution as not all question marks necessarily become stars.
Investment strategy: Implement good pricing strategy and siphon off profits.

If we compare our model to the Boston Consulting Group matrix, the five market categories match up with the Question Marks / Stars / Cows / Dogs definitions:



but have slowed, taking the country out of the top three most attractive wine markets in the world. Germany and the UK (2nd and 3rd most attractive wine markets respectively) are still very strong, although with slight declines in overall wine consumption. And the same can be seen with Switzerland in 5th place, with a small but very valuable wine market and a strong economy.

And whilst rankings help to prioritise and better understand markets, opportunities can be found in each of the 50 countries evaluated. Angola, for instance, is presented as the least attractive wine market this year – but many people wouldn't know that this is the largest imported wine consumer in the whole of Africa, accounting for one third of all imported wine drunk in the continent. At the moment Angola, just like other oil dependent economies such as Nigeria, Brazil or Mexico, is facing serious issues,

but in today's world things change fast. In a couple of years these markets could very well experience another economic boom, making now the ideal moment to invest in market research, establish distribution and to position brands.

Of course, markets are not of equal value to all people (our evaluation is based on a hypothetically neutral investor with no legacy assets).

For Luis Osório, the author of this year's report, the model is just the first step to understanding where one should focus marketing efforts: "Priorities must be well defined for those with limited budgets, and it all comes down to one's capabilities."

"The attraction of individual markets to a given company will increase through regional proximity, existing presence and established routes to market." □

UNDERSTANDING MACRO REGIONS

BRICS, PIGS, G20, ASEAN, Mercosul, OPEC, the Euro area, and, more recently, MINT (Mexico, Indonesia, Nigeria and Turkey): These terms have become used casually over the past few years to refer to groups of countries that are geographically close or which share economic similarities – for reasons both good and bad.

This bigger trend of grouping countries together due to a perceived shared identity arguably began with the British Commonwealth, which brought together the UK, Canada, South Africa, Australia and New Zealand among others. This is a trend where, in the name of peace and progress, countries, rather than splitting apart, collaborate with each other. What we know as the EU is now the greatest example of cross-border unity in the world, though it is threatened by an increasingly Eurosceptic sentiment in many key European countries, the nadir of which being this year's Brexit.

The UK, home of stability and consistent development for so many decades recently found itself in the throes of a political crisis when the British people voted to leave the EU. Most predictions of the economic impact of Brexit are negative, including its effect on the wine market – yet whatever the developments Wine Intelligence will be monitoring the situation closely.

In a broader context, for a recovering but still fragile Euro area, the Brexit process can spell nothing but bad news. Some European economies are highly exposed to its impact, especially those with a high dependence on British tourism and expats, the numbers of whom are expected to drop along with the value of the pound and the threat of a potential end to freedom of movement.

Furthermore, the price of oil isn't showing strong signs of recovery yet and important wine markets with a high dependence on this export are currently experiencing economic crises, such as Brazil, or – the most affected – Angola and Nigeria.

On a more optimistic note, we are seeing the Chinese wine market on the mend and the Asian economic boom still in full swing, with vibrant economies such as the ASEAN countries and India becoming more interested in the wine category and showing very encouraging growth rates, albeit from a low base. These markets are all in the process of maturing, and present promising opportunities for producers around the world. □

Getting to know: Mexican wine drinkers

Though better known for its tequila culture, Mexico is fast gaining a taste for wine. We take a closer look at the nation's wine consumers.

In the last edition of our magazine we emphasized that Mexico matters. In this edition, armed with fresh consumer data from our July 2016 Vinitrac Mexico wave, we're reiterating this point with a renewed authority.

If you were told that the Mexican wine market ranks 34th in the world you might shrug it off as middling, and your prejudice that tequila dominates people's drinking habits there might seal the deal for you: there are richer pickings to be had.

But the truth is that Mexico's appeal lies in its potential. With a long-term CAGR of 5.98%, the relatively low per-capita

consumption of 0.7 litres per annum suddenly seems less off-putting. This figure misses the main point, namely that Mexicans are steadily and surely turning to wine as a staple.

So who comprises Mexico's burgeoning wine-drinking population? The bias is towards males from middle-income households. In terms of age, there is a fairly even distribution of drinkers up to the age of 55 after which the numbers tail off. Most drinkers being new to the category, they are still developing their palates and so enjoy trying new wine styles and making adventurous choices.

Red wine and red varieties still dominate in Mexico, where white wine has traditionally been regarded as less sophisticated.

And as for country of origin, Hispanic countries top the charts in awareness and purchase, with Mexico coming first in both measures. This evinces the degree to which home-grown wine is gaining in importance and demonstrates that wine, far from being regarded as an overseas luxury anymore, is now being adopted as native.

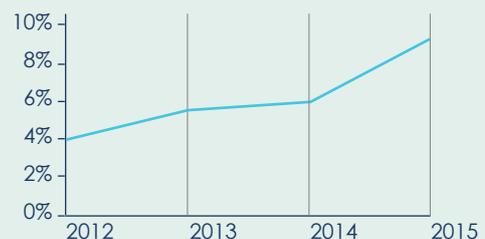
1 A glance at the Mexican wine market landscape



Wine market summary

34th largest wine market		
Total wine consumption:	7,450	'000 9l cases
Long term trend ('11-'15):	5.98%	CAGR '11-15
Per capita consumption:	0.7	litres per year
Imported wine consumption:	5,028	'000 9l cases
Share of imported wine:	67%	67%

Wine volume growth rates



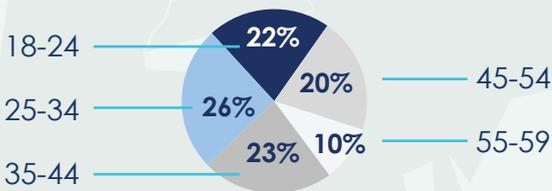
Economic data sources: World Bank; CIA library; Eurostat; Trading and Economics; Transparency International; Starbucks; The Guardian.
Wine market data sources: IWSR 2015, ComTrade, Wine Intelligence calibration studies; Wine Intelligence Vinitrac © Mexico, 2016

2 The 'who' and 'where' of Mexican wine drinkers

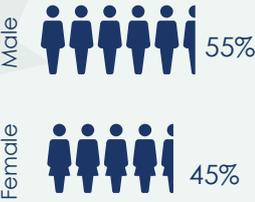
Location



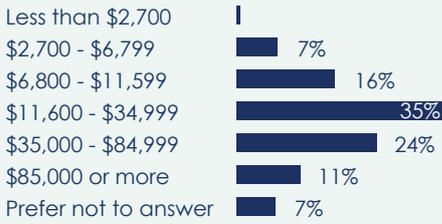
Age



Gender



Income



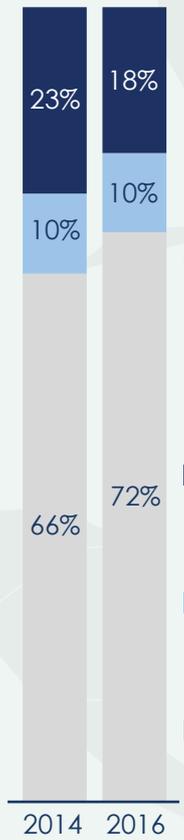
3 Their wine preferences at a glance



Wine involvement

Mexican wine drinkers are becoming increasingly experimental and adventurous in their wine choices

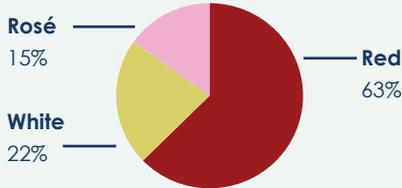
% who agree with the following statements about wine:



- I know what wine I like and I tend to stick to what I know
- I don't mind what wine I buy so long as the price is right
- I enjoy trying new and different styles of wine

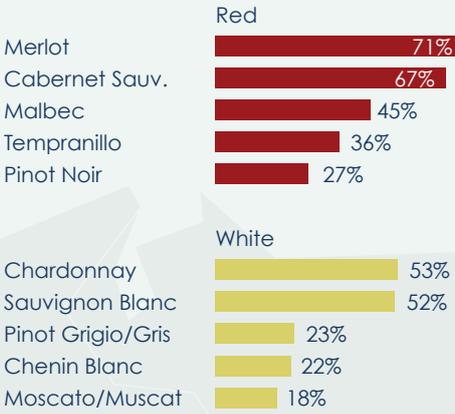
Wine preference by colour

% of red/white/rosé out of total still wine consumption



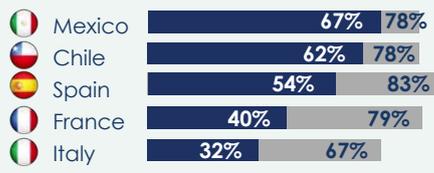
Most popular varietals

% who have drunk the following varietals in the past 6 months



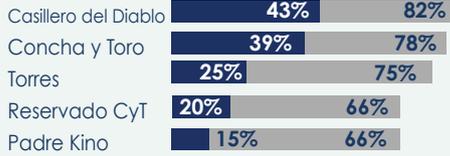
Top countries of origin

% who are aware of wine/have drunk wine from the following countries



Top brands

% who are aware of wine/have drunk wine from the following brands



Top stores used to buy wine

% who are aware of wine/have drunk wine from the following brands





New beginnings on the high street

Bricks-and-mortar retail is undergoing a renaissance in the UK as it finds its range in the digital world. We look at two aspects of the high street's rebirth.

Media in the UK like talking about the 'death of the UK high street', citing the perfect storm of instant delivery, ultra-convenience and lower costs enjoyed by online retail at the expense of the traditional bricks-and-mortar operation. Whilst the cost-benefit is undoubtedly skewed in favour of the virtual, the high street appears to be in the process of reinvention in a realm which the internet still struggles with: brand experience and product

interaction.

In our research for our upcoming retail trends report, we've seen increasing evidence that bricks-and-mortar retailers are using more aggressive and innovative ways to reignite consumers' desire to visit their stores and interact with brands

3. Micro format stores

A shift towards higher frequency, lower volume purchasing patterns has resulted in many retailers introducing mini format stores with reduced and specialised ranges.

For example, in October 2015, Sainsbury's experimented by opening a micro convenience store across the street from its head office in Holborn. The store measures just under 1000 sq ft, or less than half the size of an average Sainsbury's Local, and is designed to cater to the mealtime needs of local workers. It features a highly stripped down range of food-to-go and card-only self-scan tills at the front of the shop. Furthermore, cigarettes and lottery tickets have been excluded in order to ensure a quick turn-around of customers at the tills.

IKEA have also been introducing small-format stores, testing a number of 'order-and-collect'



units in various cities around the UK. The first store opened in Aberdeen in May with a 47,000 sq ft retail unit intended primarily as a studio space

"We are on a journey. The car is moving, and we are changing the motor while we are driving. It's not impossible, but it's an interesting challenge"



The road ahead for wine in Australia

Wine remains a key part of the ‘Australian way’, as our Sydney office reports on the market landscape down under.

If you’ve had the good fortune to visit Australia regularly, you’ll have no doubt noticed how some things have changed over the past few years. The cost of living has soared, as anybody who has been apartment searching in Sydney recently will attest to. Not only that, but as a nation, our sporting achievements aren’t nearly as plentiful as they once were—let’s not talk about the Rio Olympics or recent Rugby Union test matches against old foes please.

But, as they say, ‘plus ça change’, and, despite the apparent increase in national wealth (coinciding with decrease in national sporting ability), happily some things haven’t changed. The weather, beaches, and a big smile still remain essential components of the Australian way.

In many ways, the same can be said for the Australian alcoholic beverage scene.

Whilst microbreweries dot the urban landscape and restaurant wine lists brim with exotic grape varieties from far flung corners of the world, a good, old fashioned beer garden remains an integral part of the Australian fabric. It’s just what we choose to order when we’re there that may be different to ten years ago.

Our recent Australian Landscapes 2016 report uncovers a bit of a paradox: whilst there’s a definite adventurous streak running through our wine drinking habits, there’s still plenty of conservatism flavouring our experiences.

You probably don’t need us to tell you that Australia is an established wine market, and as such, we don’t expect to uncover any groundbreaking shifts in attitude towards or involvement with wine. There are, however, more subtle movements which are nonetheless worth paying attention to for anyone

with an interest in this, the land down under and the tenth largest market in the world for still light wine.

IMPORTS ON THE RISE

A prime example is the growth of the imported wine market in Australia. The volume of imported still light wine into Australia has increased by 5% CAGR since 2011 and now accounts for 17% of the market share. Sparkling wine volumes have increased by 6% CAGR over a similar period, equating to a market share of 31%.

It’s no surprise, therefore, to learn that country and region of origin are displaying a long-term increase in importance as choice cues for the Australian regular wine drinker, third and fourth respectively after grape variety and a brand I am aware of. In 2016 Australians are drinking significantly more wine from New Zealand, France and »

Italy than in 2012 and regional names such as Bordeaux, Burgundy, Côtes du Rhône, Châteauneuf-du-Pape and Rioja are starting to penetrate our wine vocabulary.

As you would expect, with the wave of imported wine comes an increase in consumption of niche varietals. Granted, Pinotage and Zinfandel are a long way off challenging the Cabernet Sauvignon-Merlot-Pinot Noir triumvirate at the top of our red varietal consumption repertoire, but it is interesting to witness the long-term increase in their consumption, along with other varietals such as Sangiovese, Malbec and Tempranillo.

Amongst white varietal consumption however, Australian regular wine drinkers continue to display loyalty to mainstream varietals, especially Sauvignon Blanc and Chardonnay.

Of course, if you do the maths, a 17% share of the market for imported still light wine leaves a figure of 83% for domestic volumes, proving there's still a healthy appetite for Australian-made when it comes to wine. The Barossa Valley has the highest rate of region of origin awareness, as well as the highest purchase levels, followed by the Hunter Valley, Margaret River, Yarra Valley and South Australia. This increase in awareness of country and region of origin can, therefore, be applied in a domestic context. From Tasmania to Queensland and beyond, Australia offers an incredibly diverse wine producing landscape so there is ample opportunity for domestic wine producers to place an increased emphasis on the USP of each region.

SUPERMARKET SWEEP

So, Australians are broadening their wine drinking horizons, but are they expanding their channel-usage habits? If you think that Australians are picking up their imported wines and niche varietals at independent retailers, think again. The tried and tested retail channels, especially the supermarket-owned liquor store and national wine discount store, continue to dominate the market, offering the consumer the range of wines they are clearly now looking for.

Other trends to look out for? As with the rest of the world, Australians have taken a bit of a shine to rosé. In fact, 36% of all Australian regular wine drinkers now count rosé wine in their alcoholic beverage repertoire, up from 28% in 2012. Significant long term growth can also be witnessed with rosé/pink Champagne, Prosecco, Cava and

AUSTRALIA STILL LIGHT WINE VOLUMES

'000s of 9L cases	2011	2012	2013	2014	2015	CAGR 11-15	Market share
Total	51,380	52,140	52,200	51,895	51,720	0%	100%
Domestic	44,250	44,300	43,850	43,285	43,000	-1%	83%
Imported	7,130	7,840	8,350	8,610	8,720	5%	17%
New Zealand	5,590	6,000	6,350	6,556	6,600	4%	13%
French	600	765	850	875	900	11%	2%
Italian	420	450	475	524	550	7%	1%
Spanish	120	170	185	229	235	18%	>1%
South African	150	160	175	125	115	-6%	>1%
Chilean	70	89	100	92	100	9%	>1%

TOP COUNTRIES OF ORIGIN

% who recall drinking wine from the following countries in the past 6 months

	2012	2015
 Australia	91%	85%
 New Zealand	35%	41%
 France	20%	25%
 Italy	14%	19%
 Spain	7%	9%

TOP 10 VARIETALS

% who recall drinking the following varietals in the past 6 months

Red	2012	2016
Cabernet Sauvignon	60%	49%
Merlot	58%	49%
Shiraz/Syrah	51%	49%
Pinot Noir	34%	38%
Sangiovese	7%	11%
Malbec	7%	11%
Grenache	10%	11%
Tempranillo	6%	10%
Zinfandel	3%	6%
Pinotage	4%	6%

White	2012	2016
Sauvignon Blanc	57%	57%
Chardonnay	58%	50%
Riesling	37%	34%
Pinot Grigio/Gris	25%	33%
Moscato	n/a	29%
Sémillon	30%	27%
Chenin Blanc	12%	11%
Verdejo/Verdelho	7%	9%
Viognier	7%	8%
Gewürztraminer	6%	6%

Red/blue: statistically significantly higher/lower than 2012 at 95% confidence level

Source: Wine Intelligence, Vintrac © Australia, 2012-2016; Wine Intelligence Australia Landscapes 2016 Report

"Country and region of origin are displaying a long-term increase in importance as a choice cues for the Australian regular wine drinker"

cider.

In fact, cider, along with beer, is one alcoholic beverage which holds a strong occasion positioning as a 'relaxing drink at the end of the day', which happens to be the nation's favourite on- and off-premise wine drinking occasion. The latest Wine Intelligence Australia Landscapes report includes a segment on threats to wine consumption, an important aspect to be considered by anyone in the trade. Whilst it's admittedly a trend we are seeing around the globe, it's no secret that Australians are drinking less wine. There are 12 million regular wine drinkers in Australia, yet IWSR data shows that per-capita consumption has fallen from 27.29 litres per annum in 2011 to 26.08 litres in 2015. Competition to wine from other drinks in the the alcoholic

FUTURE CONSUMPTION IN AUSTRALIA

In order to project and understand future consumption in the Australian market in the next 10 years, we calculated the total number of regular wine drinkers in 2026 using historical Vinitrac® data and net Australian population growth. We then estimated spend on wine and frequency of wine consumption per segment in 3 distinct scenarios by 2026 using historical Vinitrac® data, IWSR data and inflation figures.

2016 Current generational breakdown

	Total RWD (millions)	Per capita spend (\$/year)	Per capita consumption (litres/year)
Next Gens	0.5	\$549	40.2 ltr
Young Millennials	2.1	\$544	39.9 ltr
Older Millennials	1.1	\$619	41.7 ltr
X-Gens	3.3	\$498	37.6 ltr
Baby Boomers	2.8	\$390	35.6 ltr
Silents	2.2	\$328	38.2 ltr
Market totals	12.0	5.55 Billion \$	458 Million ltr

2026 Scenario 1 - wine drinkers carry forward their habits

	Total RWD (millions)	Per capita spend (\$/year)	Per capita consumption (litres/year)
Next Gens	2.5	\$795	40.2 ltr
Young Millennials	2.4	\$696	39.9 ltr
Older Millennials	1.2	\$792	41.7 ltr
X-Gens	3.0	\$638	37.6 ltr
Baby Boomers	2.5	\$500	35.6 ltr
Silents	1.4	\$420	38.2 ltr
Market totals	13.1	8.36 Billion \$	502 Million ltr

2026 Scenario 2 - drinkers adopt the habits of older generations

	Total RWD (millions)	Per capita spend (\$/year)	Per capita consumption (litres/year)
Next Gens	2.5	\$696	39.9 ltr
Young Millennials	2.4	\$715	39.6 ltr
Older Millennials	1.2	\$638	37.6 ltr
X-Gens	3.0	\$546	36.2 ltr
Baby Boomers	2.5	\$447	37.3 ltr
Silents	1.4	\$420	38.2 ltr
Market totals	13.1	7.56 Billion \$	495 Million ltr

2026 Scenario 3 - Generations will partially carry their habits and adopt the habits of the previous generation

	Total RWD (millions)	Per capita spend (\$/year)	Per capita consumption (litres/year)
Next Gens	2.5	\$745	40.1 ltr
Young Millennials	2.4	\$705	39.8 ltr
Older Millennials	1.2	\$715	39.6 ltr
X-Gens	3.0	\$592	36.9 ltr
Baby Boomers	2.5	\$473	36.5 ltr
Silents	1.4	\$420	38.2 ltr
Market totals	13.1	7.96 Billion \$	499 Million ltr

Source: Wine Intelligence Australia Landscapes 2016 Report

beverages category should not be ignored.

If the Australian wine environment today resembles that of a classic established wine market, what might happen next? In producing our report, we measured out possible scenarios to determine what the landscape might look like in ten years' time.

FUTURE CONSUMERS

Today the most adventurous group of regular wine drinkers is the 21-34 year old age bracket. With the highest involvement in wine compared to other groups, these Millennials (which diverge slightly by behaviour into Older and Young) enjoy trying new and different styles of wine on a regular basis and are less likely to drink wines from Australia and New Zealand than their parents. Yet the youngest group of regular

wine drinkers, those aged between 18-21 (the Next Gens), have a distinctly different profile, with a low involvement in the category and a high importance placed on price as a primary consideration in the purchasing process.

As the significance of these two younger generations increases over the next decade, the question is whether they, along with other generations, will maintain their current wine drinking habits, adopt those of the previous generation, or blend a bit of both?

If the generations carry forward their wine drinking habits regarding spend and frequency, we see that Older Millennials and Next Gens will have both the highest per capita spend and consumption. We will also see Next Gens become the second largest segment of wine drinkers, behind X-Gens.

If we assume that consumption behaviour towards wine is linked to age more so than generation, then Young Millennials currently aged 21-29 will have the highest per-capita spend in 2026, adopting the current behaviour of Older Millennials.

Yet if the third—and most likely—scenario realises itself, the youngest generation will become the most important both in terms of spend and consumption.

Whatever the outcome may be, it seems that the long-term trend towards branching out to new horizons will continue as the younger generations make up an increasing proportion of the regular wine drinking population and spending increasing amounts on wine, potentially offering up opportunities for wine producers who dare to be different. □

The power of provenance

As an established market, the German wine market might lack major growth—but this in no way means that change is absent.

When we think about the ground shifting in the world of wine, it is emerging markets that invariably come to mind – and make the news. They are, after all, the markets where the greatest dynamism, uncertainty, and, some might say, excitement are to be found. What could be more dramatic than the explosive spread of wine as a popular drink in China, or the seemingly inexorable rise of the category in Latin America?

Germany, by contrast among the most mature and established markets on the planet, is an unlikely candidate indeed to usurp these headline grabbers. As a developed market, it is slower to change. Habits are more entrenched, and consumers less excitable by new innovations.

Yet the fact that Germany is slower to change in no way implies that it has ossified. Nor does it mean that change here is less interesting for being less sweeping. In fact, in a market less characterised by change, any developments that do occur are especially noteworthy for having broken the mould: This takes some force.

REGIONAL FOCUS

So what mould-breaking forces are afoot in the German wine market?

One key shift in focus is towards the origins of wine. Where wine comes from is becoming an increasing concern for German drinkers. In our 2016 Germany Landscapes Report, a comprehensive overview of wine consumers in Germany, our data shows that



TOP CHOICE CUES FOR GERMAN REGULAR WINE DRINKERS

% of German regular wine drinkers who quoted the following as 'important' or 'very important' when choosing wine

Region of origin	73%
Grape variety	71%
Country of origin	68%
Brand I am aware of	67%
Taste/style descriptions	65%
Friend/family recommendation	60%
Promotional offer	44%
Recommendation from shop staff/leaflets	38%

% of German RWDs who are aware of the following regions (in grey) and who have purchased from them (in blue)

Mosel	22%	85%
Bordeaux	20%	84%
Burgundy	12%	81%
Pfalz	17%	80%
Rheinhessen	23%	79%
Rheingau	11%	76%
Franken	14%	75%
Champagne	7%	75%

“region of origin” now ranks as their top choice cue.

Hand-in-hand with more emphasis on the origin of wine has come a natural shift in which places of origin are preferred. In terms of countries, France has fallen from grace, whereas Italy is experiencing a boost in popularity. California, Chile, and Australia are stooping to lower consumption levels among the German wine drinking population. Spain, South Africa and Portugal are, on the other hand, still going strong, being drunk at similar rates to last year. If this paints a coherent picture of anything, it is that, with an increased interest in the origin of wine, Germans are enjoying an increased diversity of wine origins. They are moving away from accepted norms and embracing wine from a wider range of countries according to their personal taste.

Perhaps the most noticeable feature of this newfound prominence of origin in the

minds of German consumers is a growing emphasis on regionalism. Germans are more loyal to German wine regions than to foreign ones, with native regions enjoying a comfortably superior conversion rate from awareness to purchase. Another indicator of this localist turn is the greater popularity of cellar-door purchases this year, with more and more Germans travelling directly to their local wineries to get their hands on home-grown produce.

If it's an accepted truth that one single cause can bring about a multitude of sometimes opposing effects, then, as well as giving rise to a penchant for the local, the focus on wine origin also encourages a departure from traditional German Sekt towards a greater variety of sparkling wine regions from foreign climes: Champagne, Prosecco and Cava are all significantly more popular with German drinkers than last year, whereas Sekt has plateaued.

Behind the scenes

"The fact that Germany is slower to change in no way implies that it has ossified, and nor does it mean that change here is less interesting for being less sweeping."

MOVING ONLINE

Is there a catalyst to this process? What an increased emphasis on origin reflects is, in broad terms, a level of wine involvement to the extent that consumers care enough to select or reject wines because of their provenance – hardly an emerging phenomenon in such an established wine market as Germany. What it also signals, though, is the possibility for consumers to be this discerning in the first place: without choice between regions, regions are unimportant as a factor when choosing wine. Such a possibility arises only when there is a considerable choice to be made between wines of differing origin. This is increasingly the case for German consumers with the rise of the internet as a buying channel for wine. Our 2016 Landscapes Report also sheds light on this – wine purchases online have rocketed from 2015 to 2016. If there was ever any platform for pickiness when it comes to selecting wine regions, it's this.

Whether the rise of the internet has much to do with the increased importance of wine origin for German drinkers remains to be seen, and making the leap between correlation and causation on this matter is a tall order. Yet what is certain is that Germans are paying more attention, for the meantime at least, to where their wine comes from. Albeit long-established and mature, then, it looks as if the German wine market is not immune to a bit of a shake-up. □



Wine Intelligence France Director Jean-Philippe Perrouy discusses the current state of the French wine market, the potential impact of Brexit and how New Zealand Sauvignon Blanc became a hit in his household.

What attracted you to working in the wine industry?

My family background is in wine. My grandfather was a producer in Corbières so I used to do the grape harvest and from there I became passionate about wine and the wine industry in general. My Master's thesis was about business strategy in Corbières and the fieldwork I did for my PhD was also about wine. After doing my thesis I decided to specialise in consumer behaviour applied to wine in international markets. Eventually, I opened the Wine Intelligence office in France in 2012.

What major changes and trends have you seen in consumer behaviour since you started your career?

That's a tough question. Globally speaking, one change we're seeing nowadays is the strategy of New World wines. The world discovered that New World wines could be sold at the same price points in wine super-stores as Burgundy wines. The New World could therefore produce very high-end or super-premium wines.

This can be seen in the shift in consumer behaviour concerning Australian wines. What they're doing in Asia is very different from what they do in the UK and the US. In the UK they bought a huge amount of market shares but didn't make a lot of money in terms of profit. This led to a lot of price competition which created an image of very good value for money in the customer's mind. In Asia, we're seeing something else: Australian wines can be sold at quite expensive prices.

What is the current state of the French wine market?

20 years ago people said that the French were consuming less and less wine and that young French people didn't like wine. But 75% of the French population, including the youngest, drink wine. Yes, volume is declining from 120 litres per head per year, but it's still one of the highest in the world in per capita and per wine consumers. The French wine consumer drinks on average between 55-60l per year - a lot of markets would love to have that.

And it's the biggest market for French »

producers, and we shouldn't forget that.

In terms of innovation, we see new products launched every day, but the majority of innovation is probably best seen from a distribution point of view. One of the areas we've been more advanced than most markets is the internet. For a long time we had the highest broadband penetration in the world and high-speed internet expansion happened in France quite fast, including rural areas.

We're probably the world leaders in click and collect –pretty much all superstores have built 100s of points of sales for this kind of delivery.

What kind of impact do you think Brexit will have on the French market?

Well, we can speculate – in two years' time, custom taxes could go up, pushing the price of wine up, causing British consumers to drink less wine. In this case, it would obviously impact French wines as much as any other imported wines. And when prices rise, there would be inflation and interest rates could rise, so mortgages go up and suddenly people buy less wine. And then it's a credit crunch and everything explodes. That's one scenario.

Another scenario is that the UK is unable to make a good deal with the EU, but they make a free-trade agreement with New World countries and the US. And suddenly French, Italian and Spanish wines have very high import tax and US, Argentinian, Chilean wines have 0% or very low tax.

At the end of the day, the type of trade deal the UK get with the EU and other partners will be what will really impact vineyards and other producers. But I don't foresee Brexit as being the end of the world: Brits will survive it and bounce back.

What are some of the current projects that the French office are working on?

Recently we've been using the Compass model a lot to help some of our clients. We've completed a strategy project for InterRhône which uses the model to identify the emerging markets in which they should invest, and we're also using it in a new project for Alsace Wines.

Finally, we've started a project with a Belgian business who have invented and developed a wine dispensing device to adapt Compass to help them identify the top two or three key markets in which to launch their innovation.



Avignon is home to the Wine Intelligence France office, headed up by Jean-Philippe Perrouy

“The type of trade deal the UK get with the EU and other partners will be what will really impact vineyards and other producers.”

Aside from our client projects, we've almost completed our French Landscapes 2016 report and we've recently launched a survey for our upcoming Sparkling Wine report, both of which will be published later this year. This one is the most important for us— it's about tapping an untapped part of the French wine industry: the sparkling producers - so we're trying to focus more and more on this for business development.

What's your favourite wine drinking moment?

With my mates, on my patio. Very often I'd be drinking Corbières (no surprise), or quite a lot of Tavel because one of my mates is a Tavel producer. Tavel and Corbières - that would sum it up. I tend to buy some New Zealand Sauvignon Blanc (at 18€ a bottle!) I buy it to drink with my wife because it reminds us of our life in London. She loves Sauvignon Blanc and discovered that she loves it in London because in the UK the varietal is written on the bottle. We're great fans of Sauvignon Blanc. So with my mates or my wife, on my patio, when the kids are in bed and hopefully sleeping! ☐

Reports

Wine Intelligence reports for 2016

Australia & New Zealand

New Zealand Landscapes 2016	Out now
Australia Landscapes 2016	Aug 2016
Sparkling Wine in the Australian Market 2016	Sep 2016
Australia Label Design 2016	Q4 '16/Q1 '17

China & East Asia

South Korea Landscapes 2016	Out now
Japan Landscapes 2016	Out now
China Landscapes 2016	Out now
Online Retail & Communication in the Chinese Market 2016	Out now
Singapore & HK Landscapes 2016	Oct 2016

Continental Europe & Nordics

Germany Landscapes 2016	Out now
France Landscapes 2016	Q4 2016
Online Retail & Communication in the French Market 2016	Q4 2016
Denmark Landscapes 2016	Q4 '16/Q1 '17

Multi-market

Lower Alcohol Wines: A Multi-Market Perspective 2016	Out now
Compass: World Wine Market Attractiveness 2016-17	Jul 2016
Global Consumer Trends 2017	Dec 2016

USA & Canada

Rosé Drinkers in the US Market 2016	Out now
Sparkling Wine in the US Market 2016	Out now
Canada Landscapes 2016	Out now
US Portraits 2016	Out now
US Landscapes 2016	Nov 2016

Latin America

Mexico Landscapes 2016	Aug 2016
Chile Landscapes 2016	Q4 '16/Q1 '17
Colombia Landscapes 2016	Q4 '16/Q1 '17

UK

UK Portraits 2016	Out now
Online Retail & Communication in the UK Market 2016	Out now
UK Independent Wine Retailers 2016	Sep 2016
UK On-Trade 2016	Q3 2016
UK Sparkling Labels 2016	Oct 2016
UK Landscapes 2016	Nov 2016

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Globally connected.

We believe that the only way to really understand what drives us as consumers is to watch, listen and learn.

That's where you'll find us.

We'll be following home lives by rummaging through kitchen cupboards (with their owners' permission) in suburban Sydney, surveying 5,000 in Germany, France and Denmark, or recording depth interviews with women in Chengdu, China.

Camera, recorder, questionnaire and discussion guide in hand, you'll find us just about anywhere.



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