April/May 2006
Vol. 9 – Issue 5

Wine New Zealand Grower

OFFICIAL JOURNAL OF THE NEW ZEALAND WINE AND VITICULTURAL INDUSTRY

Screw caps prevail

THE ROYAL EASTER SHOW WINE AWARDS

ICCS6

INSIDE International Cool Climate Symposium

OBJECTIVES:
The basic objectives are:

- To facilitate a climate conducive to the profitable sale and increased enjoyment of more New Zealand wine.
- To inform and motivate New Zealand grape growers and wine makers, and those involved in the presentation and sale of New Zealand wine to maintain and enhance the highest standards and unique characters of New Zealand wine.
- To ensure that a high level of knowledge and appreciation of our industry's aims and achievements is imparted to people outside the industry whose activities affect our industry.
- To maintain high standards of journalistic quality and presentation, with accuracy and authority in all reports, and fairness and relevance in all expressions of opinion.

EDITORIAL & PRODUCTION
Published by Rural News Group Ltd under authority of New Zealand Winegrowers (jointly representing Wine Institute of New Zealand Inc and New Zealand Grape Growers Council Inc).
The editor is Terry Dunleavy MBE, FWINZ, JP.
Unless directly attributed, opinions expressed in the magazine are not necessarily those of Rural News Group and/or its directors or management, New Zealand Winegrowers or its constituent organisations.

FREQUENCY & DISTRIBUTION:
Published every second month. One free copy will be mailed to every member of the Institute, the Council, the New Zealand Society of Viticulture & Oenology and the New Zealand Vine Improvement Group, and to such other persons or organisations as directed by the owners, with provision for additional copies and other recipients to be on a subscription basis.

CIRCULATION & SUBSCRIPTIONS:
Contact: Lorraine Rudelj
New Zealand Winegrowers
PO Box 90 276, Auckland Mail Centre
New Zealand
Ph 09 303 3527; Fax 09 302 2969
e-mail: lorraine@winz.org.nz

EDITORIAL:
Terry Dunleavy
14A Bayview Road, Takapuna 1309.
P O Box 33-114, Takapuna 1309
Ph 09 486-3859, Fax 09 486 2341 Mobile: 0274 836688
e-mail: terry@winezeal.co.nz
Correspondents:
Gisborne: Debbie Gregory (debbie.donald@xtra.co.nz)
Hawkes Bay: Mary Shanahan (westclan@clear.net.nz)
Marlborough: Tessa Nicholson (tessan@xtra.co.nz)
Canterbury: Jo Burzynska (joburzynska@talk21.com)
Central Otago: Alan Brady (alan.brady@xtra.co.nz)

ADVERTISING:
Ros Sellers
Ph 07 827 8648; Fax 07 827 8631
Mobile 021 190 3877
e-mail: nzwinegrower@xtra.co.nz

PUBLISHING & PRE-PRESS:
Rural News Group
P O Box 3855, Auckland 1
Ph 09 307 0399
e-mail: ruralnews@ruralnews.co.nz

Managing Editor: Adam Fricker
Production Manager: Dave Ferguson

International Standard Serial No:
ISSN 1174-5223

WineGrower NEW ZEALAND

Official journal of the New Zealand Wine & Viticultural Industry.

New Zealand Wine
the riches of a clean green land

Published under the authority of New Zealand Winegrowers

Vol 9 – Issue 5 **April-May 2006**

Cover: In the 2006 Royal Easter Show Wine Awards, all but one of the table wine trophy winners were closed with screw caps. The exception was the Champion Gewurztraminer. **Stories begin page 37.**

Cool climate influence on world wine markets

From a marketing perspective, one of the most informative keynote addresses at the Christchurch symposium was that of Robert M. Nicholson, principal of International Wine Associates, an investment banking and strategic management company headquartered in California. *WineGrower* was so impressed that we have decided to reproduce Mr Nicholson's address in full, and in two parts. Part 1 below looks at global developments in wine marketing. Part 2 in our next issue will focus on the US market.


Robert Nicholson

In the context of the theme for this conference, I have been asked to address global wine market issues relative to cool climate viticulture and oenology. I will briefly review global wine trends and key market drivers. As we evaluate the trends we are going to see the importance of cool climate viticulture and oenology to sustained growth of the premium wine market and how important what you are doing here this week is to maintaining the current momentum in the premium global wine market.

For the purposes of this presentation, when referred to in a global context premium wine will be wine that retails above $US5 per 750 ml bottle, a broad quality definition at best, however, one that allows us to look at the market segmentation. Other wine that retails for below $5 per 750 ml bottle or in sizes larger than 750 ml, i.e. cask wine in Australia, or our so-called "jug" wine in the USA, will be referred to as standard wine.

Premium wines really are wines that have some complexity and flavour and have some specific characteristics that represent the varietal and or region from which they are produced. Standard wines would then generally be simple, without much fruit and are light in structure and complexity.

Cool climate a cornerstone driver

If this is correct, as we evaluate current wine industry trends and seek to sustain growth of the premium wine market, the importance of cool climate viticulture and oenology becomes clear as one of THE fundamental ways for us to differentiate our wines and helps us to increase trade and consumer interest in what we are doing in the industry.

As such, I suggest that cool climate viticulture and oenology may be one of the cornerstone drivers of the current premium wine boom.

However, it may be that the influence of the cool climate on premium wine quality is not well understood in the trade or by consumers, beyond technical circles. Consider that as consumers develop closer and more direct relationships with premium wine producers through e-commerce and the internet they will want to increase their knowledge base about our products. As such, the influence cool climate viticulture and oenology in the production of fine wine will become better understood by a broader group of the trade and consumers and will enhance interest in and differentiation of our products.

Robert Nicholson is available to help any New Zealand wine exporter to US. His website is www.intlwine.com, and he can be contacted at robert@intlwine.com, tel 001 707 433 8122, global mobile 707 974 6032.

Standard wines are not growing, however, premium wines are, and in some markets they are growing in the high-single-digit to the low-double-digit range and this just reinforces the future need for increased availability of cool climate wines. Most analysts remain bullish regarding the long-term prospects for the global wine business.

Drivers of positive demand

The principal drivers of the positive demand outlook are :

• Stabilising global wine consumption & increasing supply – consumption is stabilising due to a flattening out of the decreasing consumption trends in the traditional European producing countries, with growth in the new wine producing countries and the traditional importing countries. While wine grape supply is rising, this is a much misunderstood trend.

• Beneficial demographic trends – in most key markets Baby-Boomers are moving into their high wine consumption years. The millennial Echo-Boomers are adopting wine as their parents did three decades ago; young males are drinking more wines and reducing their beer consumption; a recent Gallup Poll survey found that US consumers prefer wine over beer and spirits. Surveys report that consumers are drinking wine because it tastes good (influence of Cool Climate wines here) and wine goes well with food. This is positive for the wine industry.

• The reported health benefits of wine is assisting consumption demand in all markets, particularly for red wines.

• Premium wine is forecast to grow at from 8 to 12 % for the next few years in major international markets.

• The strong economic outlook has positive implications for consumer income growth, which implies con-

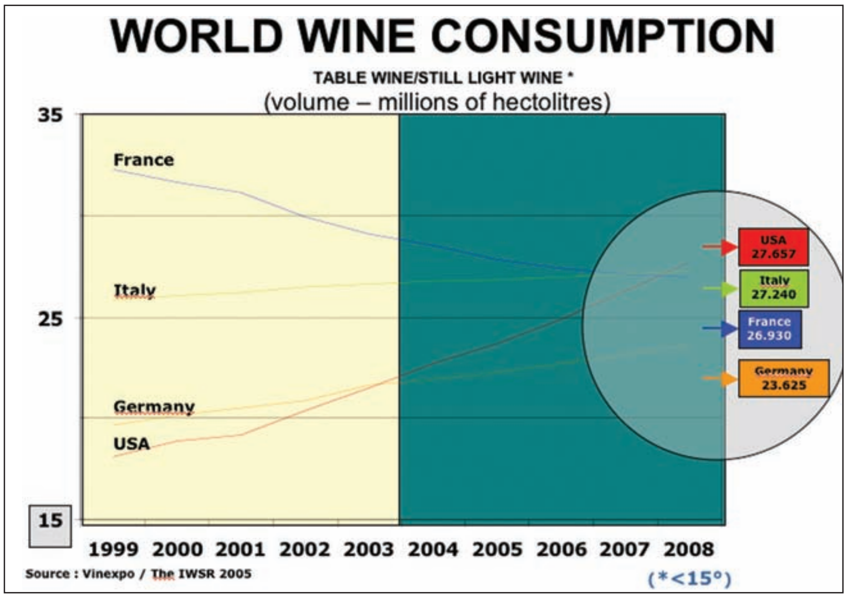


Figure 1

tinued growth in premium wine consumption.

• Retailer consolidations in major world markets such as the USA and most of Europe are causing wine producers to focus on premium brand development. High-volume retailers are increasingly interested in offering super, ultra and luxury priced wines to help improve their margins and to use these specialty wines to bring high-income consumers into their stores.

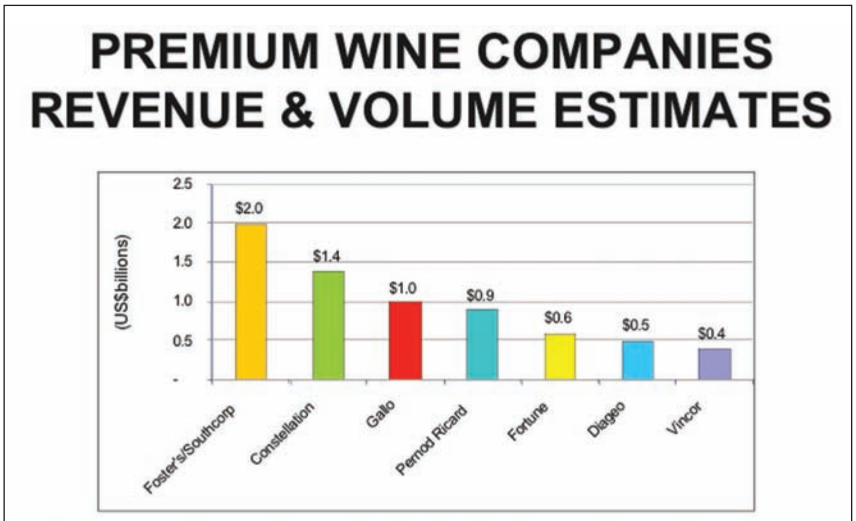
All these drivers will require an increase in the availability of cool climate wines to sustain future growth of the premium wine market.

To try to put a complicated topic simply, wine grape supply is increasing to meet the growth in premium wine consumption because standard wine grape producers are failing to limit their production in line with the decreased global demand for their products, usually because of regulatory incentives in the EU producing countries. Implications of the increase in supply range from potential disaster for standard producers to major opportunities for premium producers who have access to brands and global distribution systems. Hence the move by some standard wine producers into the premium market in the last few years.

Global developments

So with that preamble to set the stage, lets look at global developments for a moment.

World wine production is projected to increase by five per cent from 1999 to 2008. The world wine surplus was about 28 million hectoliters (HL) in 2005 and is projected to grow to 11 per cent of total global production by 2008. European Union producers, predominantly France, Italy and Spain, account for over 50 per cent of world



Premium WineSales millions 9L cases >US$ 3 per 750ml	36	40	30	20	14	11	8

Figure 2

wine production and most of today's wine surplus.

Italy, France, Spain and the USA are the leading four wine producers with a combined share of total production of over 60 per cent. Both Italy and France are projected to continue their decline in wine production through 2008 significantly. Both Spain and the USA will increase production, as will Australia, Chile and South Africa.

Global wine consumption continues strong growth of almost 10 per cent to 2008 to 237 million HL. Leading countries are shown in Figure 3.

The USA is projected to overtake both France and Italy and grow into the largest consumer market for wine by 2008 showing 29 per cent growth from 2003, with over 12 per cent market share, followed closely by Italy. France continues to decline, while Germany and the UK also continue their fast growth of recent years.

The four largest wine markets are highlighted in Figure 1 to show their growth; the two traditional wine markets show flat or zero growth; the two non-traditional wine markets, the USA and Germany show strong growth.

Interestingly, the USA is projected to grow to 25 per cent share of retail wine revenues by 2008, or by an extraordinarily strong 44 per cent from 2003; this growth is driven by premium wine sales, a significant part of which is cool climate wines. Also, the UK, Germany, Japan and Canada are showing strong growth.

A key consideration in the continued development of the global wine market is the strength of the so-called global wine companies. However, this slide illustrates how fragmented our wine industry is compared to other consumer product industries. The worldwide market share of the top four wine companies is only 6 per cent of global volume, compared to 26 per cent in beer, or 60 per cent in tobacco and 78 percent in soft drinks.

Global wine companies

Figure 2 shows the revenue and premium wine sales volume of the seven largest global wine companies, with premium defined as wine over $3 per retail bottle, a broad definition at best; five of these companies are New World producers, two are based in the Old World, however derive most of their premium wine volume from the New World; these companies sell a combined 160 million cases of premium wine, or $ 7 billion in revenues. Five of these companies have wine holdings in Australia except Fortune and Diageo; four of these companies have investments in New Zealand except Fortune and Diageo; all of them own wineries in the USA except Pernod.

As globalisation changes our world some express concerns about its overall impact. The "globaphobes" say that the multinational companies are on the rampage, doing away with jobs and wrecking havoc in local economies around the world. A recent study by the OECD tells a different story with foreign firms increasing their manufacturing output and creating jobs faster than domestic companies. They spend more heavily on R&D and export more than their domestic competitors.

In the wine business that same thing is true. The "globaphobes" say that these larger companies are creating homogenised wines that take away from the individuality of wine. I suggest that what they are in fact doing is creating "consumer friendly" entry-level branded wines that consumers are more comfortable buying in the standard lower priced premium sub-categories, than are the historical marginal quality generic offerings they have had to choose from. Branding also makes the selling job of the retailer easier to do and with the distribution consolidations we will continue to see in all markets this will become increasingly important. And it will be critical regardless of the subcategory we compete in, whether it is standard of luxury. After all isn't Chateau Latour one of the strongest wine brands in the world?

Continued consolidation likely

In the future we will see continued wine industry consolidation with the development of five or six major groups who will operate in most of the major wine producing countries of the world. We will also see the emergence of an important group of second tier regional wine companies with a focus in a specific geographic area, i.e. Australasia, the Americas, Europe. The groups will grow through acquisition, rather than organic growth and viable targets for acquisition will continue to command strong multiples of earnings, while other companies (that are not viable for acquisition) will have difficulty in selling.

The historical focus required by wine companies in the 1990's was vineyard and winery first, and then secondarily brand, distribution and

WORLD WINE CONSUMPTION

(retail sales* – billions US$ sorted on 2003)

Top ten still light wine consuming countries

Share of world wine cons. in 2008	Country	1999	2003	2003 vs 1999	2008	2008 vs 2003
24.4%	USA	13.395	16.772	+25.2%	24.207	+44.3%
9.1%	UK	6.058	7.609	+25.6%	9.058	+19%
8.9%	France	10.129	9.339	7.8%	8.791	-5.8%
8.1%	Germany	6.646	7.359	+10.7%	8.073	+9.7%
6.9%	Italy	6.289	6.661	+5.9%	6.857	+2.9%
3.4%	Japan	3.414	2.709	-20.6%	3.367	+24.2%
2.6%	Australia	2.414	2.521	+4.4%	2.641	+4.7%
2.4%	Canada	1.357	1.823	+34.7%	2.390	+30.6%
2.3%	Spain	2.692	2.489	-7.5%	2.284	-8.2%
1.8%	Switzerland	1.706	1.850	+8.4%	1.826	-1.3%
69.9%	Global total	77.722	84.747	+9%	99.025	+16.8%

* Including all taxes

Source : Vinexpo / The IWSR 2005

International Wine Associates 8 www.intlwine.com

Figure 3

marketing. The focus for 2000 and beyond will be brand, distribution and marketing. Wine companies will now have to match the strength of retailers or offer a high quality differentiated product to survive.

There is increasingly less room in the market for small and medium producers that do not have a point of difference.

You are all aware of the merger activity throughout the global wine business; here are a few examples illustrating what has happened recently:

- 2001 Diageo acquires Seagram brands & now is largest wine & spirits company
- 2003 Diageo and LVMH separate U.S. distribution networks to focus effort
- Diageo selects one wholesaler per state in USA who is required to create a dedicated sales force to sell all Diageo spirits & wine products
- December 2004 Constellation acquires Robert Mondavi
- February 2005 Diageo acquires Chalone
- June 2005 Fosters (Beringer) acquires Southcorp

The impact of these mergers has been major change throughout the distribution network :

- These consolidations have led to reduced number of wholesalers in USA & throughout the world
- Major wholesalers are increasing market share through acquisition (in USA Southern, Glazers, Sunbelt, etc.)
- In California, number of major distributors has reduced from 50 to only 3
- Only larger wineries or smaller premium wineries with DIFFERENTIATION get the attention needed to grow
- Many independent small and mid-size brands are left out
- Supplier leverage on wholesalers is fundamental to success.

Next issue:
Focus on the US wine market