

Are we destroying our brand?

asks Mike Spratt*, who with his wife Ann founded Destiny Bay Vineyards on Waiheke Island.

Succeeding in business can be boiled down to a few simple principles. Compete on the basis of being a low cost producer or succeed as a niche marketer. If the choice is niche marketer, premium brands are critical to earning a profit. The most successful niche brands in the world know this. They lead in their market, they are distinctive, they command a premium, and they trigger a strong emotional reaction that helps people remember their name. Leadership, distinctiveness, premium price and being memorable are four attributes worth remembering.

New Zealand wine is a very new entry in the global marketplace. Exports were virtually non-existent 20 years ago and now represent a billion dollars in sales. Despite these impressive growth numbers, New Zealand accounts for a very small percent of global production. In 2009 over 27 billion litres of wine were produced world-wide. New Zealand contributed 205 million litres, about three quarters of 1% of the world's annual wine supply. By any practical definition New Zealand wine is scarce. Were New Zealand to try to compete as a low cost producer, it would be operating with a clear disadvantage. The only viable option is to be a niche marketer.

Over the past ten years, the dollar value of wine exports has increased to \$992 million. However, the inflation

adjusted price per litre is on a steady decline. In 2001 that price was \$13.40. In 2009, it had dropped by 35% to \$8.81, and by July of this year it had further eroded to \$7.25. If this rate continues, by 2025 New Zealand will be shipping over 250 million litres of wine overseas for free.

Tyranny of self-interest

Historically, bulk wine exports have accounted for less than 5% of total export volume. In the past year this quadrupled to nearly 20%, and in the month of July grew to 40%. The short term self interest of dumping surplus stock has prevailed over the long term self interest of preserving margins for premium branded wines.

Despite alarms clanging throughout the industry, many producers continue to push bulk wine into the export market, effectively "looting" brand New Zealand in a frantic attempt to protect balance sheets before the industry imposes dumping sanctions. What these producers fail to grasp is that the discount slope is steep and slippery. Once balance is restored in the market, neither customer nor fellow producer will help them climb back up.

From a global branding perspective, New Zealand wine is known by what is most available in the marketplace - premium quality, inexpensive Sauvignon Blanc that has the distinctive character of tasting grassy.

There is nothing wrong with making wine like this, or making it in large volume and selling it at inexpensive prices, so long as your aim is to succeed as a low cost producer. However, making wine and selling it for commodity prices is not in the best long term interests of any New Zealand producer if the only viable strategy is niche marketing. Once residency is established on the low price shelves, even ruthless management of supply is not a ticket to a better place.

Somewhere along the way, the link between premium product and premium pricing was severed. Also lost in the translation was awareness of a simple concept that you cannot manage price without managing production. A concept well understood by OPEC, diamond miners, toy manufacturers and French wine producers. If you do not manage your supply, the market will manage your price for you.

Marketing premium brands

The stated vision for the industry is "To be internationally recognised as the leading producer and marketer of highly distinctive premium quality wines."

There is nothing in this statement inconsistent with being the number one producer of premium quality, cheap wine.

A subtle change in that vision statement would have a profound impact

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on the marketing strategy. If the vision were "To be internationally recognised as the leading producer and marketer of highly distinctive, high quality, premium branded wines", a steadily eroding litre price would be a clear indication that marketing tactics were failing.

Premium branded products sell for a premium or they are not considered premium. Among other things, that is what differentiates premium brands from generic products.

Claiming to sell premium quality for a low price is a sales gimmick that discount merchants use to push volume out the door. Most of the public is wise to this trick and do not accept this proposition for anything other than undifferentiated commodities. If it is cheap, people have a hard time accepting that it is different or better than the rest.

From a marketing perspective, there is nothing inherently wrong with "Pure Discovery" as a slogan. It is an intriguing proposition that might be quite effective in persuading a person to spend money on a holiday to New Zealand.

However, it is not clear how this proposition will help induce customers to pay \$50 or more for a bottle of New Zealand wine.

There are a growing number of small producers in New Zealand who understand and accept the reality of the world wine market and the strategic choices available to New Zealand. They know that unparalleled quality is a pre-requisite to charging a premium. They know that price is not a barrier to purchase when the product is good and sought after. They know that they are judged by the company they keep and therefore must be mindful about where they are seen. And, they know that cutting price does not make it eas-

ier to sell but rather makes it harder.

Two major challenges

Two major challenges facing the New Zealand wine industry are brand de-familiarisation and thoughtfully managed production to ensure that the inherent distinctiveness and quality of flagship wines and emerging brands is not cannibalised by corporate indifference and short-term financial objectives.

New Zealand wine producers need to acquire skills in subversive marketing and lead the charge to overthrow the outmoded and inefficient global wine distribution system. The creative and strong willed Kiwi spirit that produced brands like The All Blacks, Icebreaker and 42 Below needs to be rekindled in this industry.

Effective niche marketers are laser focused on attractive, distinct segments. They are obsessed with positioning their product in front of the right people in the right places. They build passionate and loyal customer bases, use non-traditional distribution channels and employ clever promotional tactics. They leverage their marketing investment, are ruthless in picking their partners, and do not tolerate mediocrity. If a business does not have distinctive products, superior quality, a compelling story and a serious commitment to succeed, it cannot be an effective niche marketer.

Perhaps most importantly, effective niche marketers do not travel with the herd. That is why presenting wine in huge cattle call tasting events is the province of lumbering low cost producers who execute marketing strategies with blunt instruments.

Real change begins with understanding and accepting reality. The erosion in New Zealand export prices is not the result of temporary imbal-

ances in supply and demand, successive bumper crops, fickle wine writers, merciless distributors, obstructive biosecurity procedures, or swarming locusts. As a producer of less than 1% of the world's wine supply, it is bewildering how too much production could be considered the major problem. The inconvenient truth is that the New Zealand wine industry is not over producing, it is under marketing. It is pursuing a fundamentally flawed strategy of aiming at the wrong end of the market and missing low.

Is the New Zealand wine industry destroying its brand in the global wine market?

The answer is yes.

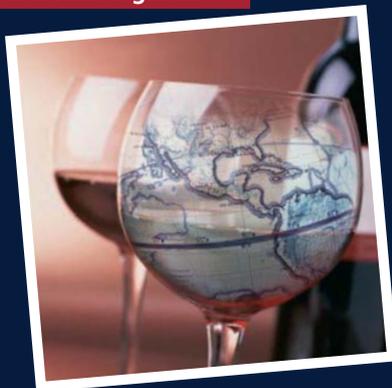
The important next question is: Will it accept the reality of what has happened and alter course?

A hundred years ago in the western United States a great battle was waged between sheep farmers and cattle farmers over open grazing land. What ensued was an acrimonious and sometimes bloody confrontation over land use. A modern version of this conflict is playing out in the New Zealand wine industry. Two competing forces, both using the same natural resource and country brand, have diametrically opposed strategies for creating economic value. One seeks to leverage the soil, site, and climate of New Zealand into high value, premium branded wines sold to discriminating purchasers. The others have elected to reap nature's abundant rewards and convert them into low cost, respectable wine, at attractive value prices. Both strategies have merit but only one is economically viable for a small country like New Zealand.

The New Zealand wine industry requires a more creative solution. Old habits must yield to new behaviours,

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Of my three portfolio areas, biosecurity is the most important. A major breach of biosecurity would affect the livelihood of every New Zealander. We need to constantly review the way we do things at the border, and not complacently accept that what we have now is as good as we can deliver.

In conjunction with the Prime Minister's announcement we will also be announcing a number of other meas-

ures that are designed to strengthen our border biosecurity, and deal to those that fail to accept their responsibilities as travellers to New Zealand. All of these changes will deliver a better, smarter, and more efficient biosecurity system at our border

There is no denying that despite the remarkable growth to date, New Zealand's wine industry faces a raft of challenges and a tough short-term

outlook.

Being an industry of independent character, I know that resolution in the first instance rests foremost with you. I also believe that some of the initiatives I have outlined will assist in grappling with these issues in the coming years.

I believe that as you continue to harness the energy of land and people, then wines of superb quality will remain the hallmark of your industry. 🍷

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end customers must regain their rightful place in the hierarchy of defining product and opportunity, and marketing tactics must be tailored to specific niche markets.

Supply side strategies offer limited returns. Real opportunity resides with a market driven approach that is built on four core principles.

1. The distinctive attributes of New Zealand wines must be the centre point of brand strategy. The soil, site and climate cannot be copied and are the last lines of defence against competitors.

2. The only markets worth pursuing are those where New Zealand can command premium prices by serving

customers who value the distinctive attributes of New Zealand wines.

3. Production must be aligned with anticipated demand both in volume and mix. It is better to have some unfilled orders than excess stock.

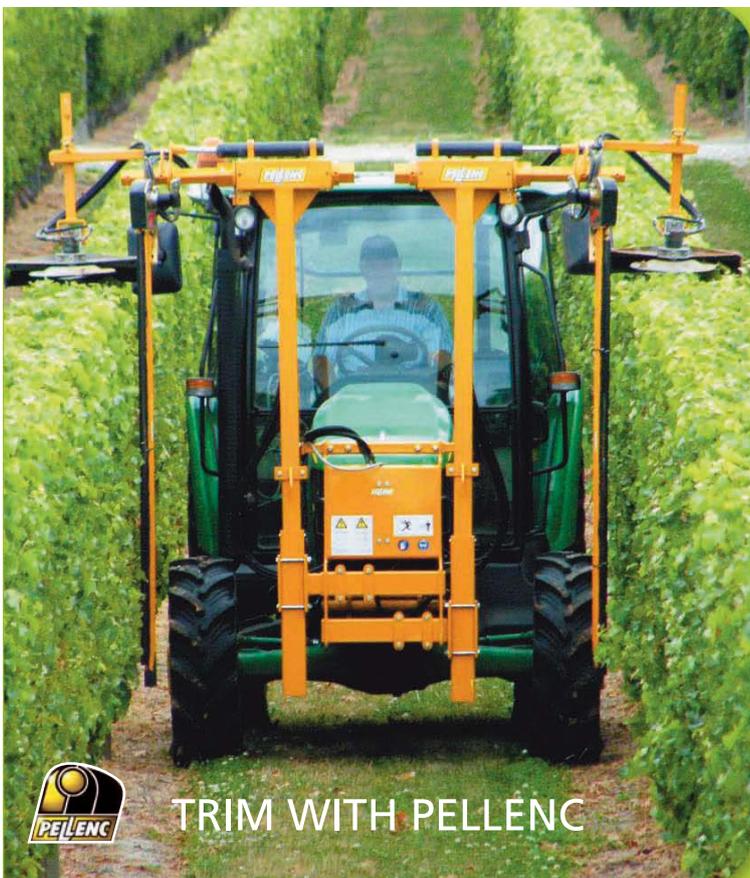
4. The promotion and placement of wines must be controlled by New Zealand champions. Vesting this with independent distributors creates a conflict of interest that will not resolve in New Zealand's favour.

The challenges facing the New Zealand wine industry are daunting only to those unable or unwilling to look beyond the mistakes of the past. Salvation does not rest in the laps of corporate giants or within the boundary of

traditional practices. Rather, it rides on the shoulders of a new generation of producers, committed to pushing the limits of wine making and marketing, prepared to aggressively defend the distinctive attributes of New Zealand wines, and refusing to accept a lesser fate than a proud nation deserves.

• Mike was a senior partner in PricewaterhouseCooper's global Mergers and Acquisitions consulting business. He holds a Ph.D. in Psychology from the University of California at Berkeley, and has over three decades of experience as a business manager and an international management consultant.

Letter abridged; full version available from letter@destinybay.co.nz.



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identify the mealybug species found in each vineyard. At least 10 vineyards were monitored in each region.

After inspecting a total of 7,600 vine leaves from the three regions, two mealybug species — citrophilus and longtailed — were recorded. The obscure mealybug was not found. The results were consistent with those of Hawke's Bay where, since 2006, vines

from 40 vineyards had been monitored.

These results have immediate implications for researchers. Rather than focusing on mealybug synthetic sex pheromones for three species, researchers can instead prioritise the development of protocols for only two of them.

For growers, the practical benefit is

likely to mean they will have to manage and monitor pheromone-baited traps for only two mealybug species, not three.

Progress around the use of mealybug sex pheromones will be conveyed to growers through a combination of seminars and updated reports that can be accessed via the members' only web site www.nzwine.com/intro/.

Nitrogen additions in vineyard or winery for enhancing Sauvignon Blanc flavours

08-327

Kerrie Stronge, Dion Mundy, Mike Trought, Margaret Roberts, Emma Sherman, Michelle Beresford, Lauren Axten, Mark Wohlers, Roger Harker and Sara Jaeger.

Plant & Food Research staff at the Marlborough Wine Research Centre and the Mt Albert research facility in Auckland have undertaken a project, funded by New Zealand Winegrowers, to investigate nitrogen additions in the vineyard versus nitrogen supplementation to the juice and the effects on the sensory characteristics of the resulting Sauvignon Blanc wine.

Small-scale winemaking techniques (Figure 1) were used to produce wine from four different nitrogen treatments. Firstly, fertiliser was applied to the grapevines, resulting in a juice with a high concentration of yeast available nitrogen (High YAN). Secondly, vines in the same vineyard plot which were not fertilised with nitrogen, produced juice with a Low YAN concentration. This Low YAN became the control for the experiment. The third treatment involved adding diammonium phosphate (DAP) to a portion of Low YAN juice. The amount of DAP added raised the total YAN level to that of the High YAN treatment. The fourth treatment involved adding DAP and amino acids (AA) to a Low YAN portion of the juice in the same ratio of the High YAN treatment.

Changes in nitrogen composition of the treatments resulted in

the fermentation kinetics being influenced. The High YAN treatment had the fastest fermentation rate, followed closely by the Low YAN + DAP + AA treatment. Adding DAP to the low YAN juice (Low YAN + DAP) increased the fermentation rate slightly above that of the control (Low YAN), the benefit being maintaining

comparison with the other treatments, significant differences were found in the attribute "Cat's Pee" in the High YAN treatment and in "Astringency" for the Low YAN + DAP + AA treatment.

Further in-depth sensory profiling using the rank-rating method found differences in the sensory

characteristics comparable with the thiol concentrations. The High YAN wine displayed greater average intensities of flavour and aroma in the attributes "passionfruit/stalky" and "sweet/sweaty passionfruit", both flavour and aroma characteristics that are associated with the thiols 3MH and 3MHA respectively.

Nitrogen is an important macronutrient in the biological system

of grapevines and it also plays an important role as a nutrient source for yeast in the conversion of juice to wine. Managing nutrient applications and YAN levels in the vineyard is shown to be a helpful means of enhancing flavour and aroma development of Sauvignon Blanc wine.

Acknowledgements: The authors acknowledge the support of Pernod Ricard in providing the vineyard trial site, the supply of grapes and the donation yeast for the experiment. Also O-I New Zealand for their donation of wine bottles. This project was funded by New Zealand Winegrowers.



Figure 1: Wine tanks at the Marlborough Wine Research Centre microvin winery

the fermentation rate in the latter stages of fermentation.

Post ferment analysis of the wines showed greater thiol concentration in the High YAN treatment compared with the control. Vines were fertilised with two types of nitrogen fertiliser, and further investigations into the impact of the type of fertiliser used on thiol production are currently being undertaken in an associated study.

Sensory analysis of the wines using a trained panel, and conventional profiling methods resulted in there being significant differences in two descriptors of the wines. In