

VIRTUAL WINE BRAND GROWTH

An article written by Mark Hamilton for Australian Vignerons Magazine.

One growing trend in the current grape supply/demand equation is the burgeoning trend by various US and UK wine companies and importers to create “virtual” Australian wine brands as one means of participating in Australia’s wine export growth as an alternative to purchasing Australian wine companies or brands.

These US and UK wine companies and importers in the main have major distribution networks in the main US and UK wine markets which they can utilise to sell “own brand” Australian wine. For example, one of the two major “off premise” commercial premium lines in the UK is owned by a major independent distributor. The production of the brand is completely outsourced in Australia- and the product has no connection with any vineyard or brand story in Australia.

Given the consolidation that has occurred in the Australian wine industry at the big end of town, the larger Australian producers are already involved in secure distribution arrangements in the US. The opportunities for US and UK wine companies and importers to purchase Australian wine companies without existing distribution obligations are obviously limited. This situation will obviously become more tied up if the Foster’s take-over of Southcorp succeeds

Considering the high Australian dollar, the potential purchase of one of Australia’s larger wine producers by an overseas player is potentially a very expensive undertaking, especially while the earnings of Australian producers are suppressed. For this reason, it is yet to be seen whether an alternate take-over offer of Southcorp will emerge from a large overseas player.

One trend that has clearly emerged is for existing US and UK producers and importers to “create” their own Australian brand and to service the brand through purchases of Australian bulk wine. Vineyard purchases, the writing of grape contracts and the building of physical wineries may follow in some instances. At the moment, however, ample wine is available on the bulk market meaning that there is no pressure on virtual brand owners to lock in supply lines. This will no doubt change as the industry moves to a balanced supply situation.

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This is "leveraging" at work in a big way, and has significant implications for the Australian wine industry and its participants. It proves that a long pedigree in Australia may count for little in the brave new global wine world, which probably is more likely to reward the nimble than the long established.

The Australian Wine & Brandy Corporation has recognised the potential growth and importance of bulk wine sales (to say nothing of the additional risks of exporting bulk wine versus bottled product) and has in recent years substantially upgraded bulk wine export requirements and procedures.

This is particularly vital to maintaining Australia's excellent wine reputation, given the significant potential for wine spoilage when exporting bulk wine in containers (in particular, loading and unloading wine) rather than exporting packaged wine.

It is likely that a new category of bulk wine supplier will emerge over time to service this demand, possibly filled in part by traditional grape growers who are prepared to negotiate bulk wine supply contracts and to take processing and greater financial risk for a potentially greater return. Major bulk wine suppliers such as McGuigan Simeon are well set to capitalise on this trend, as well as supplying "own brand" grocers in Australia such as Coles Myer and Woolworths.

It is possible that small, medium or middle-sized wine companies will do a mini "Simeon" and add a bulk wine section to their repertoire. It may be that medium sized wineries will emerge as one class of potential customers for Australia's uncontracted vineyards to service this demand.

Whilst grape contracts have taken on a familiar form from years of usage, a new generation of contracts for the bulk wine "business" and bulk wine sales will need to emerge. This will become clear when the supply of readily available bulk wines abates over the next two years and purchasers of bulk wine need to lock into formal contract arrangements.

One risk for the contract producers to these virtual brands is the new idea of bottling Australian bulk wine overseas for some of these brands. This is also a possibility for some of the major Australian wine producers for their own brands although equally some of these companies are moving to outsource some of their commercial price point wines in Australia. It is a complex and evolving industry that we are part of bearing little resemblance to the industry of 20 years ago.

It is likely that wine brokers, particularly those with international connections, will take on increasing importance in the future Australian wine industry particularly as the over- supply abates.

Issues about wine quality, description, condition upon despatch and arrival, and storage during shipping will be crucial to managing bulk wine sales and the attendant financial and liability risks.

Central to this will be ensuring that the risk of spoilage (being the major risk) transfers to the purchaser at the port of despatch, and that the seller of the bulk wine obtains payment under letter of credit facilities at that time.

No doubt Australia's major wine companies are already assessing this development, the threat it represents and any response.

It makes for somewhat surprising times when it emerges that one way of overseas interests being involved in the growth of the Australian wine industry is through "reverse engineering"