

## **Wine Industry Outlook: Consumption Demographics, Market Segmentation, Trends And Opportunities**

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Today I've been asked to talk to you about wine – who's drinking what and why, and trends and opportunities. But first...

*“CEREAL KILLER FINDS HOLE IN US BREAKFAST MARKET”*

“The U.S. cereal market has been hit hard in recent years by competition from Bagels.”

The Wall Street Journal March 4, 1999

How many of us, when we read about the Kellogg Company being “too slow in reacting to tough market conditions” and losing to the emerging bagel-on-the-run market, thought smugly, “well that's pretty obvious”, “surely they saw that one coming”.

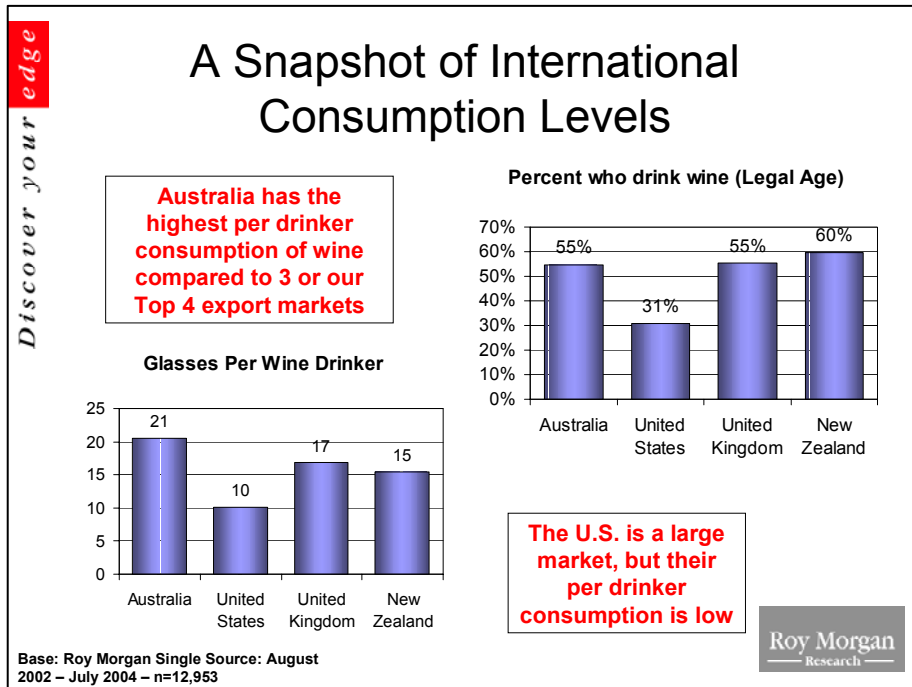
Clearly, the Australian wine industry has been very successful – both domestically and internationally. Wine sales and consumption has been growing strongly.

If you listen to the retailers – things are great – they are still ordering wine.

If you listen to the dedicated wine drinker – we all know him – wine is just wonderful and unlikely to lose favour with him.

And the Free Trade Agreement (FTA) with America has been signed so we have access to the large and lucrative US market.

We, in Australia, drink more wine (on a glass per person basis) than the US, UK, or NZ – as the following chart shows.



In an average 4 week period 55% of Australians of drinking age have drunk on average 21 glasses of wine. This is ahead of New Zealand, and the UK, and well ahead of the US where in an average 4 week period only 30% of people have drunk an average of 10 glasses of wine.

In this regard, the wine industry could claim to have done an outstanding job in changing the “beer culture” in Australia.

Yet, however glowing this history, finally it is just that – history. It is the view through the rear vision mirror. It tells us little about how the wine industry will need to grapple with the plethora of issues and increasingly complex environment within which it operates.

It provides little help in thinking about the profound, but as yet, unidentified or unclear implications for the wine industry of such things as:

- Oversupply and proliferation of supply
- Consolidation of retailers – eg a tighter control over distribution
- Retailer "Private Label" strategies.

So, how do we go forward?

At Roy Morgan Research we believe the way forward is to look at what's changed or changing, and what's stayed the same. And to look at other industries – especially those where we can see similar market dynamics being dealt with well.

We all know what's changing in the world of wine and the broader alcoholic beverage market – almost everything: products, channels, whole markets, ownership, regulations, etc. The one thing which remains “constant” is the reality that at the other end of all the multitude of offerings is a customer – a customer making choices.

*“On average, the CEOs of US corporations lose half their customers every five years. This fact shocks most people. It shocks the CEOs themselves, most of whom have little insight into the causes of the customer exodus, let alone the cures...”*

Frederick F. Reichheld, Harvard Business Review, March-April 1997

More than ever before we need to understand that customer – and the choices he or she will make.

And that of course is what Roy Morgan Research is all about. Since 1941 we have been surveying Australians about their views, attitudes, and behaviour in every area of their lives. With something like 5 million interviews and tens of thousands of focussed discussion groups and in-depth interviews with Australians, we have a good understanding of people and consumers.

We have been collecting information on the alcohol industry in Australia for the last 30 or so years, and have been able to see changes in the behaviour of alcohol consumers over this time. And we now do the same research in the US, UK, New Zealand and Indonesia. So Roy Morgan Research is in an excellent and unique position to understand the wine market in Australia and globally.

Some key consumer responses when it comes to wine in Australia are...

37% of wine drinkers in Australia *“often ask the retailer for a recommendation on wine”*.

Think about that – 4 out of 10 consumers feel the need to ask for advice on your product – when was the last time you asked for advice on beer or butter?

42% say they *“would be more likely to choose a wine if they knew it had won some medals”*.

How insecure are your brands when the medal is more important?

64% say *“I'd prefer retailers to display their wine by type or variety rather than by brand”*.

We know these figures from interviewing 55,000 people face-to-face in their homes each year, and collecting detailed wine consumption and attitudes from around 13,000 wine drinkers each year.

Basically, consumers are clearly not in touch with brands in wine anywhere near the same extent that they are in other consumer goods categories – BUT this creates a massive opportunity for the manufacturer who recognises this and acts on it.

**Today when it comes to wine, the consumer is NOT brand driven!**

Basically, the consumer does not give a damn about BRAND when it comes to wine. So why are we advocating a consumer focus and why worry about brands if the consumer isn't?

**It's simple – with a strong brand you make more money.**

First, customers and brands relate directly to shareholder value. The equity associated with *Brands* is valued by shareholders as being worth literally billions of dollars. It has been estimated that over 70% of the value of Fortune 500 companies in the US resides in intangible assets.


A major study by Josh McQueen (until recently, Worldwide Director of Brand Value for Roy Morgan International) based on the 10-year performance of Standard and Poor's companies (1990 to 1999) showed share price is mostly under the company's control.

Discover your edge

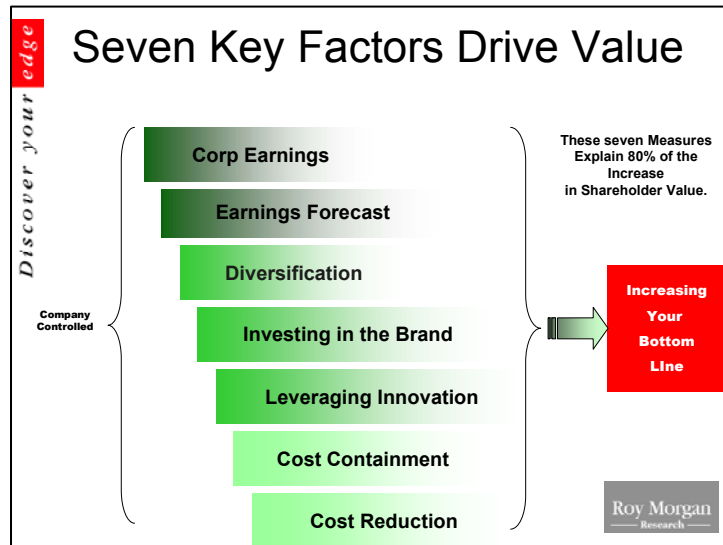
**Value-Creation under Corporate Control  
Drives Share Price and Bottom Line**

**Value Drivers Developed on Top 500 Co's on NYSE**

- 10 year performance record from Standard and Poor's (1st quarter 1992 - 4th quarter 2002)
- Built an Explanatory Model on 120 S&P Companies
- Validated Model on the remaining 380 companies
- Using variables accepted by Wall Street Analysts:
  - **Standard & Poor's** (Performance Analysts)
  - **Ennis Knupp and Associates** (Manager of Managers)
  - **T Rowe Price** (Fund Manager)



Specifically, 80% of the increase in shareholder value can be attributed to seven key factors. **Corporate earnings** and **Earnings forecasts** were the most important, followed closely by **Investing in the Brand**, **Leveraging innovation**, and **Diversification**. **Cost reduction**, and **Cost containment** were relatively weak contributors to share price.

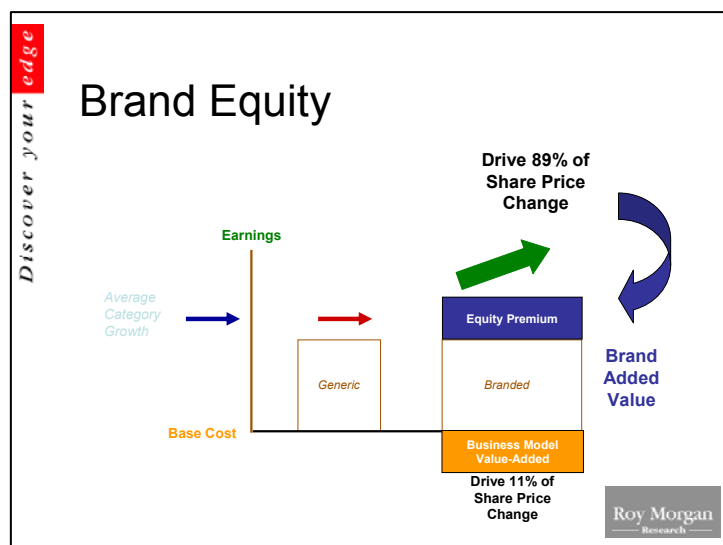


There's a second reason we advocate worrying about consumers and brands. It's about power and ownership. It's about "Who owns the customer"- the wine producer? The retailer? And where is the power?

Without "Brand Power" wine's destiny may be as a cost-driven manufacturer for retailers' "Private Labels".

With the power of a brand, and consumer demand for that brand, you can successfully negotiate the right distribution despite the consolidation of the distribution side.

We have observed many of our successful clients (often in partnership with us) in the FMCG area cope – and thrive – by building demand for their brand.



In other words, it's about Brand Loyalty – both here and overseas. The more you build a brand, the more you bulletproof your winery – and the more money you make. Within reason a strong brand allows you to command a greater margin – and not be at the distributor's ransom – YOU DRIVE DEMAND, NOT THE CHANNEL.

We know it's easy to say "Brand's the answer" – and indeed, we can observe a few of the wine industry's excellent efforts to build a brand.

But how well has the wine industry done overall?

Today, without powerful brands:

- The retailer holds the power;
- Retailers can easily move consumers from one brand to another by simple promotional Point-Of-Sale activities.

(The wine industry has done a brilliant job of educating consumers about a "regions" brand – who knew about Margaret River 15 years ago?) And "Brand Australia" today is a great umbrella brand for Australian wines.

"Brand Australia" is a great brand. Australia is top of the list of destinations people from the US and UK would like to visit.

Discover your edge

### Top 10 Preferred Destinations

Top 10 Preferred International Destinations				
Rank	USA (14+)	UK (14+)	NZ (14+)	AUST (14+)
1	Australia	US	Australia	UK
2	UK	Australia	UK	US
3	Italy	NZ	US	Canada
4	France	Canada	Europe (unspec.)	NZ
5	Germany	Spain	Canada	Europe (unspec.)
6	Europe (unspec.)	Italy	Italy	Italy
7	Ireland	France	France	France
8	Spain	South Africa	Fiji	Ireland
9	NZ	India	Greece	Greece
10	Japan	China	Ireland	Germany

Source: Roy Morgan Research International Travel & Tourism Study Nov/Dec 2003 (Places would like to visit)  
Australia: n=1,032, New Zealand: n=2,315, United States: n=2,022 United Kingdom: n=2,185

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But remember the question "Who owns the customer?" and "Where is the power?"

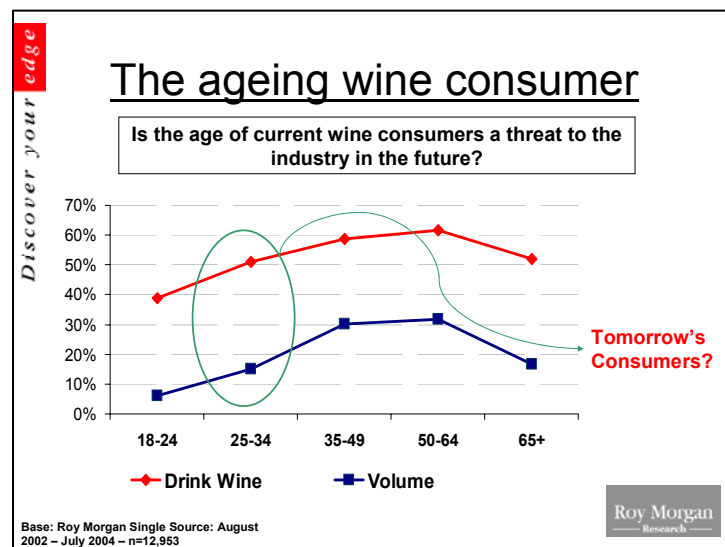
While "Brand Australia" has great marketing leverage (you can ride on its coat tails) it is not necessarily the final solution for two reasons:

- What's to stop the creation of an Australian Private Label brand?
- What if "Brand Australia" loses its lustre - perhaps through a political situation that has nothing to do with wine?

If we buy the notion that customers and brands matter- that they are our business (whether we are Board Members, Wine Growers, Analysts, or anyone else in the chain), then we must turn our mind to consumers.

Remember the bagel, remember the CEO who lost half his customers – and consider now “Baby Boomers” and their role in the wine industry’s success.

This is an interesting chart. See the “Baby Boomer” bump.



Clearly, in the “Baby Boomers” age demographic, the industry has, and is, doing extremely well. Around 30% of wine volume is consumed by people aged between 50 and 64. You can see how we have missed out on the *older groups – they are still drinking sherry!*

The real problem is that “Baby Boomers” are a non-renewable resource. The younger segments are not drinking nearly as much wine – those aged 18-24 represent only 6% of wine consumed. We can’t assume they will follow the “Baby Boomers” transition into wine... But why???

They are spoilt for choice – our data shows a proliferation in alternative purchase decision. We’ve seen an explosion in the RTD (Ready to Drink) market and the options available for many varied markets, notwithstanding the boom in wine choices available.

And they are very focussed on ‘brand’ – they are ‘brand’ savvy. They are open to brand promises, indeed look for Brands as a way of making the choices they make all the time.

We have to capture our share of their minds now.

A second issue raised by this demographic chart is the ageing of the “Baby Boomers”. As can be seen, the step over to the 65+ age group sees share of volume drop dramatically. So, there is a need now to focus on the 50-64s of tomorrow and well into the future to ensure that domestic consumption remains supported as its current main supporters age and begin to reduce consumption.

Focusing on brand strengthening within these key markets of tomorrow will be vital.

While it is likely that young people of today will gradually grow their wine consumption, it is by no means assured. Ensuring that a smooth transition into wine consumption is possible will involve making wine easily accessible to the average alcohol consumer, who may generally find making alternative selections such as beer or RTDs easier.

**So all this helps you understand the wine consumer in Australia...**

The FTA with the US opens up the huge US market. And while only 30% of people in the US drink wine in an average 4-week period, this represents well over 60 million wine drinkers (compared to 8 million in Australia). It is a numbers game.

More Americans watch Australian Rules Football than do Australians.

Almost seven and a half million Americans (7,496,000) watch Australian Rules Football at least occasionally on television. This means Australian Rules Football is viewed by more Americans than Australians (7,004,000)<sup>2</sup>. More Democrats than Republicans watch Australian rules, and yes, they are more likely to drink Fosters.

Some things are the same the world over – the trick is to know which ones.

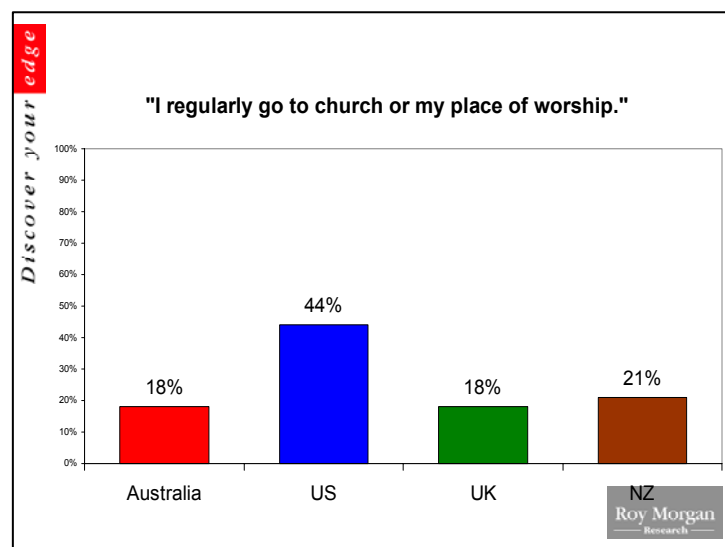
Most of us know that we can't equate a US dollar to an Australian dollar – any Australian travelling in the US does so at their peril.

Most also know that the US gallon is not the same as an Imperial gallon; a US ton is not the same as a tonne.

But how many organisations operating across different countries are unaware of the less obvious or less easily defined differences that can distort their perspective?

English speaking countries (Australia, US, UK, and New Zealand) are similar in their views to many things like the environmental engagement, concerns about Globalisation, and enjoying food from all over the world.

*But when it comes to church going, Americans are way out in front – 44% of Americans 'regularly go to church or their place of worship'. This is more than double Australia (18%), or UK (18%) and NZ (21%).*



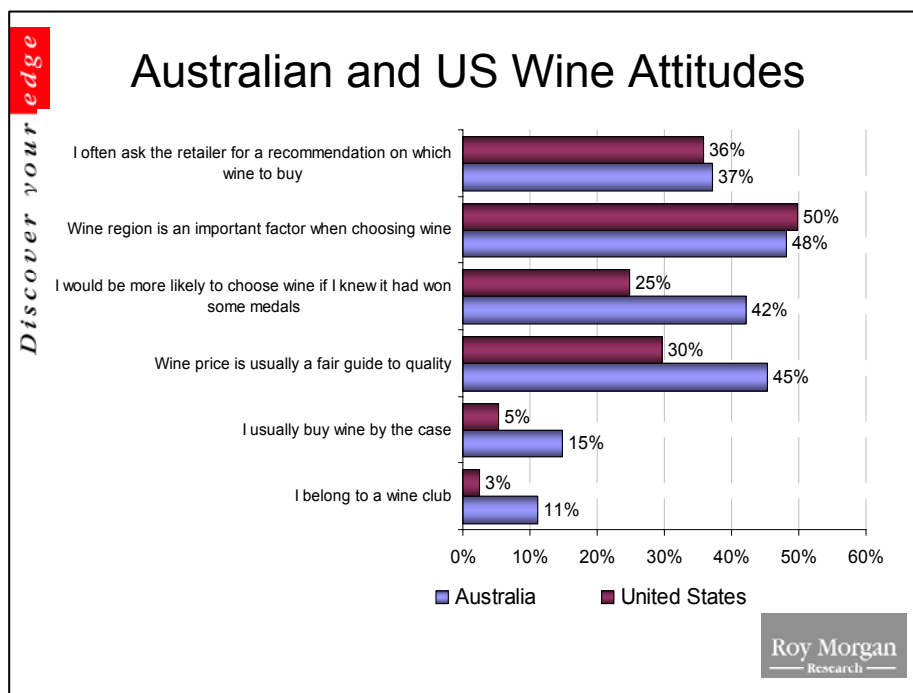
<sup>2</sup> Source: Roy Morgan Single Source USA Mar 2002-Feb 2004, Australia Apr 2003-Mar 2004



The critical point for anyone wanting to understand their industry across international markets is that there are traps for the unwary in either taking local measures or folklore at face value, or in trying to generalise from the local (home) market to areas outside the home market.

But consistent international data is valuable - we can see the differences that make a difference, and see the often extraordinary degrees of similarity.

A quick look at the attitudes of US wine consumers compared to Australian wine consumers show that many of their opinions are similar.

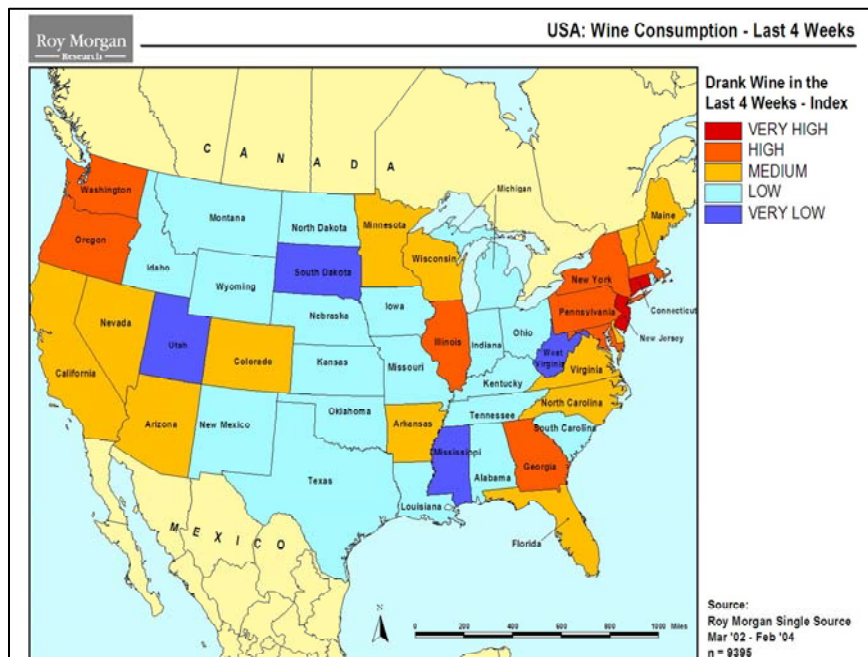


However, some of the main differences show that Australian wine consumers are more likely to look for price and medals to guide them in their purchase decision. Additionally, Australian wine consumers are more likely to be more highly involved in the category, purchasing wine by the case and being members of wine clubs.

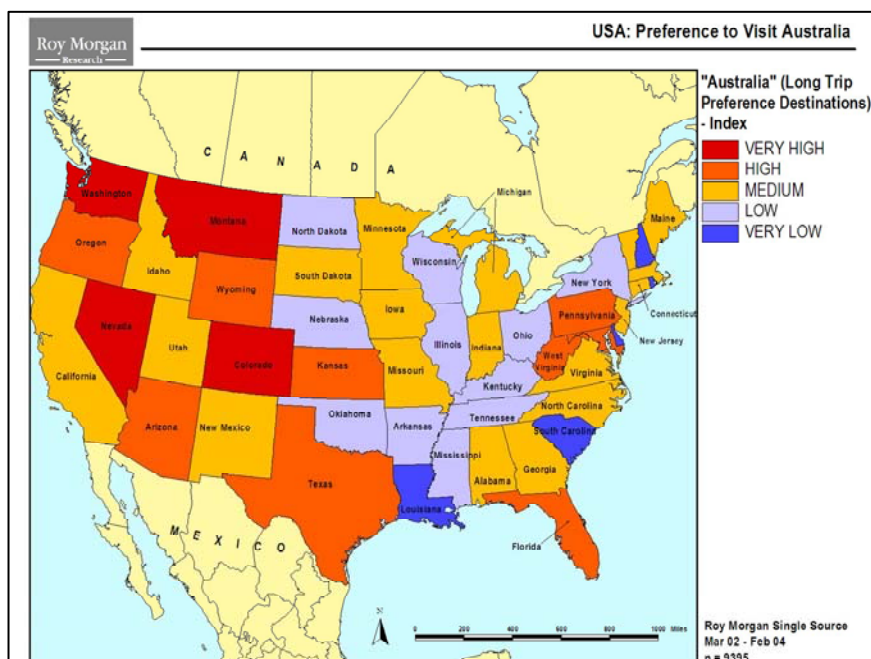
So in the US, it's a lower base of involvement - but remember the numbers - the 60 million wine drinkers.

And today it's as easy to target and communicate with consumers in the US as it has always been in Australia.

For instance the following chart shows where most affinity for wine is,



The next chart shows where the affinity for Australia is strongest.



So, powerful data-driven geographic targeting is possible. (This is the scientific alternative to “gut feel” and “experience” and “grass roots” knowledge, which often gets us by in the Australian market.)

Media targeting is similarly as simple in the US as it is in Australia, now that Roy Morgan has as much data about US consumers as Australians.

Given these opportunities and challenges, effective and accurate information on the global wine market, and specifically, the domestic market, is going to be essential for remaining ahead of competitors in terms of both selling current products, and determining new and future product and distribution options.

However, the real power lies in understanding the character and attitudes of your consumers, and knowing how to target and subsequently reach and persuade them will be vital.

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