

MEININGER'S

WINE BUSINESS INTERNATIONAL



JOHN CASELLA: THE LONG YELLOW TAIL

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MELLOW YELLOW – THE SECRET OF AUSTRALIA'S TOP WINE

AN INTERVIEW WITH JOHN CASELLA BY ROBERT JOSEPH

Yellow Tail (or [yellow tail] as it appears on labels) is a phenomenon. A wine brand whose global sales have risen from zero to over 11 million cases in just nine years. It remains the biggest selling wine in the US by value. Even more remarkably, this success story was not created in the offices of a major multi-national wine company, but by a small family-owned concern in Griffith, New South Wales, with a history of selling bulk wine. Indeed, Filippo Casella only came to Australia from Sicily in 1952 and did not start to produce and sell wine until 1969.

Filippo's son, John, launched Yellow Tail in 2001, in conjunction with US distributor Bill Deutsch, the man behind the North American success of Duboeuf. It was the two men's second attempt to create a brand for novice drinkers in the US. Initial projections were for sales of 20-25,000 cases in the first year; John Casella was the winemaker – and the man who tinkered with the label, adding the now-familiar square brackets.

Meininger's: The Australian wine industry is going through a hard time at the moment and for some people at least, you and Yellow Tail seem to be handy scapegoats.

Casella: Yes. That's the nutty thing, because if you look at the car industry, is it built on Lexus or on the Corolla? And at the end of the day, we're supplying something that consumers want, are buying, and are continuing to buy, so how can we be doing anything wrong? I don't really need to answer anybody other than the consumers. We're a flag bearer for the industry. We contribute to industry programmes. We do all these things. It's really beyond me where this criticism comes from, because there's no reason to criticise the product. When you look at our show medal success, it's a good quality wine. So as a producer, what else are you supposed to do to make the critics happy? Not be there I suppose would be the other alternative. But if we weren't there, what would fill the place of Yellow Tail that can't fill it now?

Meininger's: Your critics say that you've cheapened the image of Australian wine.

Casella: The 75cl sells in the US for around \$6.60 and the 1.5litre is about \$11.50/\$12, so we're not selling on price and never have. We've kept the price fairly consistent. We've had one price rise in nine years.

Meininger's: You're selling 11 million cases worldwide. How does that break down?

Casella: There are eight million in the US. Sales there have stabilised. We're way off declining along with the rest of Australia. The Canadian market is still solid for us too, and in the UK we're up to about 800,000 cases and the new distributors, Percy Fox, [who also distribute the market leader Blossom Hill] haven't had time to do much yet. We've got good double digit growth in Germany, with Eggers & Franke. In Northern and Eastern Europe volumes are small, but we're there. We're selling about 400,000 cases in Australia, which, given our price point and that we don't actively discount I think is fairly solid...

The biggest growth market is obviously China. We want to be on that train very early on. We want to be the brand that people get to know. We're not there yet, but we're not late in joining because there's not a lot of development there. Sometimes you're better off being a little late and understanding your market a little more than trying to be in first without really doing so.

Meininger's: And what about Japan? Didn't you spend a lot of money on the launch, painting the streets yellow?

Casella: Yes. That worked quite well. Sales are about 150,000 cases, which is about double the closest Australian. We're still doing well – back in growth after a little bit of a decline.

Going forward, we have to look after a lot of these smaller markets that weren't so significant in the past, and we have to innovate and be mindful of what the consumers are doing and what they expect, and make sure that we deliver on it. Just as importantly, we need to look after our customers, the distributors and the storekeepers that stock our wine. And there's a lot of scope there. People aren't just going to walk away. Sometimes they need to be reminded of things. Nothing told me that more than some of the old liqueurs that sort of came and went and now are coming back again. Who would have thought of an Italian liqueur being advertised on television in the US. That was something grandparents drank, but it's back. So as long as your taste profile is right, the consumers don't change that much. It's a matter of keeping them interested and giving them a reason to buy.

Meininger's: I suppose the big question is how sustainable, given the cost of production in Australia, and how profitable is it?

Casella: Well, it's not so much the selling price that determines our success, it's the exchange rate. At 75 Australian cents to the US



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dollar we're very profitable and looking great. At 85 it becomes marginal. Above 90 we've got serious issues. As our hedging begins to decline, we'll need to look at what we have to do to bring pricing into line with having a winery that's generating decent profits.

Meininger's: And you might be competing with Californians selling in weak US dollars and Europeans selling in cheap euros.

Casella: It's going to get tough but we've got a strong brand, a world class facility, scales of economy that very few people can match and at the end of the day we're a private company, so we only have to perform to our and our financiers' expectations.

Meininger's: Can you go on paying what you have been for grapes?

Casella: We've got close to 650 growers, normally on three to five year contracts. Some of those contracts are running out, but most will be renewed. We don't underpay. We've just really clamped their production so that we have got their capacity in reserve in future years when we need to increase production by 5-10%.

Meininger's: Now on the big picture, Australia is not as strong a brand as it was. How is that affecting you?

Casella: Yellow Tail has really transcended being Australian or being of any nationality. It's a brand. Do people like to drive a Lexus because it's Japanese. I don't think anybody really wants to know whether it's Japanese or not. They know it's a good car.

Meininger's: But that suggests you could make Yellow Tail elsewhere. You could make a Californian Yellow Tail tomorrow.

Casella: I suppose if you had to, but it's not only the country it comes from. It's what that country delivers as far as style, the wine quality and how it delivers on consumers' expectations. So sure, we could make it in any country, but it has to be the same formula.

Meininger's: So there could be an Argentine or Chilean Yellow Tail?

Casella: We won't say possible. We will say it's not impossible.

Meininger's: In FMCG terms, branded wine enjoys relatively little loyalty. This must make it hard to sustain a brand.

Casella: We've got to be realists... the reason brands like Yellow Tail and the ones that come after it will succeed, is because consumers do change. We need to give the consumers a reason to stay with us.

The important thing for us is that we've got consumers that are very loyal to the product. We wouldn't be at the sales volume we are if we didn't. Now if they want special occasion wine, we have the Reserve. What we wanted to do [with the Reserve] was to give more

of the fruit, more of that mouthfulness, more of the plumpness, more of what they're getting in the Yellow Tails now... a bit less residual sugar. It's been a challenge, but I feel very comfortable that [the Reserve] suits anybody who drinks the Yellow Tail standard... Anybody who doesn't understand a lot about wine tastes the next level up and says this is better... For a seasoned wine drinker who understands quality, it's not too difficult to know quality. But if you try giving a premium Chardonnay to a Yellow Tail drinker, they'll think there's less there. It's more acidic, and it does have less flavour. Finer flavour, yes, but less flavour.

Meininger's: Are you finding tastes are evolving?

Casella: In the USA, for example, there's a bit of a move away from Chardonnay, and we're countering that with a 'tree free Chardonnay,' we've just launched which is unoaked. I also think we're seeing more of a decline in the USA with Shiraz than in other markets.

Meininger's: Is that part of the decline in the Australian segment.

Casella: No, probably because they feel that there's more interesting things. Let's remember that Shiraz 10 years ago was virtually unknown, so the same consumers that jumped to Shiraz are the same consumers that like to jump to different things, so they're jumping to something else. Again, we have to stay relevant... deliver more of what they want in the form of another variety... But I wouldn't touch the main blend because at the moment it's still millions of cases and we don't touch something with that level of following.

Meininger's: What about producing a lower alcohol wine?

Casella: We have been working on that, but the lower alcohol has got to be a bonus. It hasn't got to come at a cost, so it's not an easy task. When it comes to low alcohol, everybody talks it but I don't know if anybody is going to buy it. I'd prefer they drink three quarters of a glass of a good quality wine, rather than a glass. At least they'd derive the drinking satisfaction and have got a full flavour product.

Meininger's: If you were given a few million dollars and challenged to put the Australian ship back on course, what would you do?

Casella: There isn't an easy solution. I mean trying to sell regions is no guarantee of success. If you look at the French model where they talk about regions, the differences were clear. The varieties were different, the wine styles were different, the bottles were different. Within Australia wine styles are the same. They're rich. They're oaked. The wine making is much the same. Sure enough, side by side,

"Today there's just so much information around that, where one million dollars got you 20 years ago, 10 million won't get you anywhere near that today."



you might pick a small regional difference, but that's not enough for somebody to say "I don't drink Barossa but I drink Coonawarra" or vice versa, whereas with the French it is more marked.

If anything, while [some people] see that there's a disadvantage in not having regions, to me it's almost an advantage. If you're producing a particular style of wine, you're not limited to one region.

Meininger's: So any other ideas to solve Australia's problems?

Casella: Marketing can only do so much, because the way the world is today there's just so much information around that, where one million dollars got you 20 years ago, 10 million won't get you anywhere near that today, simply because of the overbearing load of information on people's minds. It's a very difficult task to take something that's unknown and make it known and appreciated.

Meininger's: But Australian wine isn't unknown. Australian wine is known to a lot of people, but it's kind of gone unfashionable.

Casella: Yes. I think at the end of the day, at the premium end, it's to do with making it known to more people and making it known why it's a better proposition than the current one - than what they're currently consuming. And that's a big task because realistically there's a lot of competition that delivers people what they want, so there isn't this great need to go and buy something else because they're quite happy with what they're buying. If you look at the shift in consumers at those high price points, it's not as marked as at the lower price points, where it's either price, image or - probably the most important thing - recommendation.

Meininger's: How much do you spend on advertising and marketing?

Casella: This year the total spend in the US is about US\$15 million. About, a couple of dollars per case of twelve. We don't do a lot of advertising. I think we're away from the billboards, Most of it is television now. We do a lot of promotions.

Meininger's: What are you doing online, what are you doing that's new and different?

Casella: We've actually got people now working to take advantage of the social media, which we haven't done effectively. The world's changing and we need to change with it. I've never used it, but obviously there's a lot of people for whom it's become central to their lives.

Meininger's: Would what you have done with your business, have been possible if it had been publicly quoted.

Casella: I doubt it. There were difficult times. If you went back to the creation of Yellow Tail, where the owner was the wine maker, ownership was probably the most important thing. When we launched we didn't make a dollar a case. Who, if not the owner, would stick his neck out and spend more than he was going to make - gross, not net?

But it wasn't just that, it was the cost of stock, which nobody considers. We had to start accumulating stock and we had to build the infrastructure. We went from about a 20,000 tonne winery at the launch of Yellow Tail to about a 200,000 tonne winery today. It was a huge task on our finances... But we had good times. We had good exchange rates. We launched at 67cents to the US dollar and spent a lot of time at 60. We launched with bottles and cartons costing double what they cost now, so as the volume went up the cost of everything went down.

Meininger's: Bill Deutsch, your US distributor, as I understand it, owns 50% of the US brand. Is that right?

Casella: It doesn't really work that way. We've got a good family relationship, so whether you have things in place or whether you don't, there's a commitment on our part to look after him and there's a commitment on his part to look after us and we work together great. We've done 10 years and we'll do another 10 years, or we'll do another 20 years for that matter.

Meininger's: But there are those in the industry who feel you should have sold the business three years ago.

Casella: Maybe they can ask me that in five years' time. There's a time to sell and a time to buy, but there's a time to savour what you've helped create, and I think we're at that stage because money isn't everything. Being able to work the way we do, have the family involved, have a future for your children, what more could you want? Whether you've got \$50 million in the bank or \$500 million, is it going to change your life? It won't... I grew up in the place. My parents' old house is on the place and I wouldn't like to see somebody else in there.

Meininger's: So today you're producing 11m cases. What do you expect the figure to be in 2020?

Casella: In 10 years' time I'd really like to be 15 million cases, with the reserve as 10% of those... at around the \$10 price point. There's good potential there. We'll aim high and see how far we get.

Meininger's: Is it all as much fun as it was?

Casella: It's definitely not as much fun. There's no question of that. But at the end of the day, when you've done it, it's satisfying. ■