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[Yellow Tail]
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Markets of the future?

James Clarke looks at the increasingly important BRIC markets to see what potential they really hold for wine sales now and into the future

Whether you're a football supporter, a climate-change campaigner or a steelworker, it's hard to ignore the growing influence of the world's larger developing economies. With wealthy Russian oligarchs propping up Premier League football clubs, China calling the shots at the Copenhagen Climate Summit and India's acquisitive Tata Steel now claiming a substantial chunk of the global market, the sway these countries hold is plain to see, especially when most developed nations are struggling to climb out of recession. It's no great surprise, then, that drinks companies large and small have been scrambling for a foothold in these potentially vast, emerging markets.

Diageo's current attempt to gain control of its Chinese domestic-market partner Sichuan Chengdhu Quanxing, at a cost of around £160m, underlines the British group's belief in China's importance. French rival Pernod Ricard already has a strong presence in what it calls "new economies", which accounted for just under a third of total sales in the first half of 2009/10. According to chief executive Pierre Pringuet, China is close to overtaking Spain as Pernod's third-largest market by volume and value.

The BRIC quartet of Brazil, Russia, India and China presents wine companies with a total still light wine market in excess of 175m cases, according to The IWSR's data. As a whole, the quartet has almost doubled its consumption during the past decade, accounting for just over 7% of the global market in 2008. Wine is already made in all four countries. Theoretically, local consumers should therefore have some degree of product familiarity, although the scale and quality of domestic production can vary widely. China, for example, has over 500 wineries ranging from state-owned giants such as Great Wall through mid-sized companies with foreign investors to smaller, Chinese-owned producers. Pernod Ricard started a joint venture with Helan Mountain two years ago and markets a range of varietal wines, which wine magazine *Decanter* describes as "thoroughly drinkable". Adrian Keogh, marketing director for wine and development projects at Pernod Ricard, points out that having a local brand can help expand the wine category overall, opening doors for imported offerings such as Jacob's Creek or Campo Viejo.

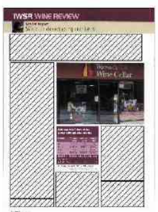
Russian conundrum

However, the existence of local producers is no guarantee of widespread consumer acceptance. Constellation Brands' sales director for Russia and Eastern Europe Andrey Grumondz reports that 70% of his wine sales are focused on Moscow and Saint Petersburg. Beyond the boundaries of these affluent centres, vodka and beer, rather than wine, are the staple alcoholic drinks. "In the Soviet era, cheap, reasonable-quality wine was available from Moldova, Georgia and Bulgaria, and these are still thought of more as domestic than imported," he says. On-shelf from around €2 ($2.65) a bottle, such wines are the entry point for many consumers. Above them are wines imported in bulk, then come bottled imports, with Old World wines taking around two-thirds of the market, although New World offerings are gaining share. Constellation's own portfolio starts at around €5 ($6.70) per bottle and, perhaps surprisingly, Paul Masson is its leading brand by volume. Russia accounts for 30% of the brand's sales worldwide, though even the local distributor is hard-pressed to explain its success beyond sheer longevity, Paul Masson being one of the first imported wines available to Russian drinkers. Legislation limits marketing support to press and online advertising, plus the usual range of below-the-line activities such as tastings and price-offs, so the Californian brand's popularity is not underpinned by major media investment. Paul Masson does provide a base from which to build Constellation's priority wines headed by Hardy's. The Robert Mondavi brand focuses on the on-premise sector, and Kumala from South Africa was launched in June 2009 to address the entry-level and mid-market segments for imported wines. Constellation's challenge is trading consumers up from the value proposition of Paul Masson sold in one- and four-litre carafes to Hardy's or Kumala, retailing at higher prices, let alone the upper-end Mondavi wines. Working in its favour is the lack of a significant own-label segment and Russians' preference for brand names, especially among better-off city-dwellers.

Aiming high

While it takes a different route to get there, Pernod Ricard mirrors Constellation in its desire to establish its strategic wines. "The end-game is to build international brands," agrees Keogh. But in addition to its Chinese joint venture, Pernod also makes wine locally in Brazil, India and Russia (counting Georgian wine as domestic for Russian consumers). The ability to cover the local and imported ends of the wine market helps when cross-selling, and the French group's extensive spirits portfolio can add further leverage. Helan Mountain wines target the restaurant sector in China and are sold alongside market-leading Martell Cognac, for instance.

Pernod's international priority still light wine brands are Jacob's Creek (Australia), Montana (New Zealand), Campo Viejo (Spain) and Graffigna (Argentina). Bottled imports are invariably priced at a premium to local wines, but there are different levels of affordability within the import segment. Typically, the French group aims to position its international brands towards the upper end of the imported offer, in a retail price bracket of around $10-$15. "Obviously, this limits the potential volume, but it's a segment we're happy to address. We're not interested



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in the bottom end of the market," says Keogh.

With several major spirits in its portfolio, Pernod Ricard might have been thought to take a highly structured approach to seeding its brands in emerging economies, but Keogh describes the process as taking more of a brand-by-market route that reflects the group's decentralised culture. Jacob's Creek is the main priority, but after that, much depends on whether particular countries of origin have local resonance. New Zealand, for example, is sometimes more of a niche proposition, while a Spanish rioja from Campo Viejo can often have broader relevance as an entry point. Resources are usually focused on no more than two imported wine brands in any one market, Pernod's salesforce also having a substantial range of spirits to handle, though occasionally third-party distributors may sell another of the French group's wines.

Route-to-market

Distribution in developing markets can pose a major challenge, especially for new entrants in countries as vast as China or India. Casella Wines launched its highly successful [yellow tail] brand in China two years ago. "There's a lot of Australian wine, both bulk and bottled, going there at the moment, but the problem is getting distribution," says Casella's export sales manager Angus McPherson. "There's no clear model, such as the one you have in the US or the UK."

In common with most newcomers in China, Casella has been going through a learning process with its Chinese distribution partner, fine-tuning the strategy as they learn how best to work together. The local preference for red wine means that is where Casella is focusing its efforts, but while [yellow tail] shiraz is the Australian producer's best-selling varietal internationally, Chinese drinkers favour cabernet sauvignon, possibly a consequence of Bordeaux's reputation for fine wine in China.

Of course, the challenges don't disappear once the right distribution partner has been found. "We're new to China, so we need to understand how consumers engage with wine," says McPherson, highlighting how the often unfamiliar local culture in emerging markets complicates the exporter's task. Casella plans to undertake consumer research in China to further its understanding of wine-drinkers' expectations there. Studies across the company's more established markets in Europe, North America and Asia reveal a consistent, mainstream drinker profile of 45-55-year-olds, split equally between male and female, married with teenage children. It will be interesting to see if this profile proves valid for China going forwards.

And the future?

If the BRIC markets are preoccupying wine marketers at the moment, how will things look five years from now? Russians' susceptibility to brands means Moscow and St Petersburg will probably continue to interest the likes of Constellation and Pernod Ricard. The former's Andrey Grumondz thinks consumption will spread to other cities of more than a million inhabitants, the market continuing to grow as the Russian government raises minimum pricing on vodka and encourages a more measured approach to alcohol. At Pernod, Keogh points out that several markets we think of as developed are far from mature for wine. Per capita consumption in the US is less than half that of the UK and a third of Nordic markets, leading some to regard it as another slumbering giant. In BRIC terms, he believes China and India will provide much of the excitement over the next five years.

McPherson from Casella thinks import taxes and tariffs will continue to make Brazil and India difficult for exporters, and while China holds great potential, his own back yard of Australia is still a source of growth for [yellow tail]'s core range: "You don't always have to go half way round the world to grow your business," he says.

McPherson's reminder is a useful reality check; The IWSR's figures show that the total combined volume of wine sold by Casella, Constellation and Pernod Ricard in the four BRIC markets has actually declined over the past five years, and other countries will undoubtedly yield greater volume gains in the short term. However, even if wine remains a niche market in the BRIC economies, their scale and growing financial muscle surely guarantee that they will continue to affect the lives of wine company executives, along with Chelsea fans, Greenpeace members and the employees of Nippon Steel. ■

● *James Clarke has extensive experience in global wines and spirits and provides business writing services under the Wordessence name – www.wordessence.co.uk*

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BRIC countries' share of the global still light wine market

Country	Volume 1999	Volume 2004	Volume 2008
Brazil	29,699.5	31,075.0	30,100.8
Russia	29,880.0	44,885.0	71,380.0
India	111.5	281.3	1,226.3
China	33,640.0	40,206.5	72,410.0
Total BRIC	**93,331.0**	**116,447.8**	**175,117.0**
% of global still light wine	*4.2*	*5.0*	*7.2*

All volume figures in '000s of 9-litre cases

Source: The IWSR/Vinexpo 2010 ©