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[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.

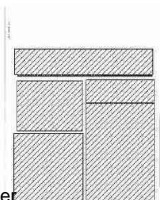
Going forward, we have to look after a lot of these smaller markets that weren't so significant in the past, and we have to innovate and be mindful of what the consumers are doing and what they expect, and make sure that we deliver on it. Just as importantly, we need to look after our customers, the 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 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 mouthfullness, 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, 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. ■

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MARKET WATCH

HOW SWEET IT IS... THE ROLE OF RESIDUAL SUGAR IN BRANDED WINES

While Australian wineries are often criticised for excessive use of residual sugar in red wines, there's little doubt this plays a role in their success. Sam Caporn examines the sweet secrets of their success.

Australian, mass-market, branded red wine has overtaken all its competitors in the UK in recent years. How much of its success can be attributed to the residual sugar (RS) it contains, following the addition of grape concentrate (GJC) post-fermentation? Do all big producers use GJC? Why, how and when is it used? To find out, I contacted 57 small, medium and large wineries - including representatives of the five largest wine companies in Australia by wine grape intake - Hardys (255,647 tonnes), Foster's Group (221,569 tonnes), McGuigan (160,000 tonnes), Orlando Wines (126,570 tonnes) and Casella (124,306 tonnes).

No fewer than 29 companies - including all the biggest players - responded and were surprisingly frank - though their comments remain anonymous for this article.

Of course RS is also added to European commercial wines, but it is hard to imagine a similar level of openness from Old World producers in response to this kind of question.

In addition to the information gleaned from questionnaires, samples of the top-selling 10 Australian wine brands in the UK off-trade

A wine is never entirely dry. Grapes contain both fermentable sugars (glucose and fructose), a small quantity of non-fermentable sugars (arabinose and xylose), and a little trehalose formed by yeasts during fermentation. Once alcoholic fermentation has stopped, all red wines retain RS of around 1.5-2g/l, (grams per litre) but because their concentrations fall below the threshold of detection, we don't sense the sweetness.

At concentrations above 0.2% (2g/l), sugars begin to give 'body' to a wine, though generally the sugar content must be over 1% (10g/l) for the wine to taste distinctly sweet.

Sweetness in wine, and the perception of

sweetness by receptors on the tongue, is caused by glucose, fructose, glycerol and ethanol. Tannins and acidity alter our detection of sweetness, and sweet and bitter compounds can mask each other's perception. Sweetness is critical to our enjoyment of wine, with the taste of wine being the balance between sweetness, acidity and bitterness, and in the case of red wines, tannins.

Our sensitivity to sweetness is thought to be determined by gender, age and genetics, weighted in favor of women and youth. The average threshold of sensitivity to obvious sweetness is said to be around 1% (10g/l) by weight, but many people detect sugar at less than half that level. Cultural factors also play a part. In the US where corn syrup is commonly used in supposedly savoury foods, and confectionary and sweet soft drinks are popular, consumers have a significantly higher threshold of sweetness perception than European counterparts whose sugar intake is smaller. All of these factors play a role in how and why GJC is used for big-volume, branded wines.

What is GJC?

GJC is grape juice that has been concentrated to approximately 68^o Brix - in other words until it contains around 800g/l of RS. This thick, sugar-rich syrup can be added either pre-fermentation as a must-enriching agent or post-fermentation to sweeten. There are four main types of GJC: Standard neutral (not stabilised), Premium neutral (heat and cold stabilised), Varietal aromatic (white grapes) and Varietal red (red grapes). Standard neutral GJC is the most common type of GJC to be added pre-fermentation while Premium neutral GJC is mainly used post-fermentation.

GJC is produced in either one or two stages,

depending on the variety being concentrated. Neutral GJC goes straight to a vacuum evaporation process, while aromatic GJC undergoes an additional aroma recovery process before being concentrated in order to maintain aromas and flavour.

What makes GJC attractive to wine-makers?

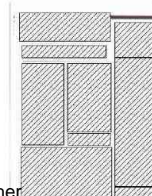
According to the survey, Australian wine-makers rely on GJC as a fix for a variety of potential quality issues that concern big volume, low-price wine producers.

One winemaker, for example, explained that GJC improves the balance of a wine by softening tannins along with filling out the mid-palate. In small quantities, it also accentuates fruit ripeness rather than adding noticeable sweetness. Another says he aims to give a 'fuller, velvety feel' to the wine, while another still uses it to mask faults like hard tannins and counterbalance high acidity.

Others use it to mitigate higher grape prices by lowering yields, noting that it is much cheaper to add GJC to soften tannins and improve the perception of ripe fruit. One experienced consultant winemaker believes that judicious use of GJC can fill out the mid-palate and balance or soften the perception of acidity and tannin.

How widespread is the use of GLC in Australian wineries?

The five largest wineries in Australia all use GJC - as do 64% of wineries producing over 500,000 cases per year, according to the survey. The percentage decreases with the size of the winery, but overall, 14 out of 29 (or 48%) of the wineries that responded to the survey use GJC.



Some wineries use GJC across their entire range of wines. But in general, the RS levels decrease as wine quality increases: 5-8g/l on Yellow Tail and 4g/l on reserve wines. Of the 14 wineries using GJC, 36% of those using it did so for entry-level wines only, while 28% used it either on entry-level wines and their next-highest priced wine or any wines produced with an RRP of under A\$10 (US\$8.47) per bottle. Five wineries (36%) responded that they used GJC throughout their whole range, except their super-premium label.

The amount of GJC added is determined by a variety of factors, including grape variety, total acidity, weight of the wine, level of tannins, the age at time of blending, the quality and type of GJC, the purpose of adding GJC (ie. to mask tannins or to build fruit weight), the style of wine being made and targeted consumer preferences.

The RS of the wines before the addition of GJC are typically around 1-2g/l (mainly as non-fermentable sugars) and the addition is commonly around 3-5g/l RS for a softer, less tannic variety such as Merlot, increasing to 6-8g/l RS for a variety with firmer tannins, such as Cabernet Sauvignon.

The optimal amount to add changes during the course of the year. As wines age, they soften. Tannins polymerise, giving the wine less need for GJC to balance out firm tannins. Nevertheless, some winemakers knew approximately what RS levels they would expect their main blends to have.

Top 10 Australian Wines in the UK market

An independent analysis of RS levels in the top 10 Australian wines by value in the UK market shows that the most popular mass-market wines use GJC. Eight of these wineries had stated on their survey questionnaire that they did so and analysis showed their wines to have RS levels over 5g/l. Two of the Top 10 Australian brands, had lower RS levels - Jacob's Creek and Oxford Landing, which supports their statement that they don't use GJC.

Even more

telling, eight of these immensely popular wines have higher RS levels than nearly all of the less-popular wines listed in Chart 3. The two wines with higher RS levels in Chart 3 are produced by wineries that make a Top 10 Australian brand, Casella and Lindemans.

What the winemakers say

A majority (71%) of winemakers believed that the use of GJC is increasing. McGuigan started experimenting with GJC for table wines in the mid-1970s, and is convinced of a direct correlation between GJC use and the success of Yellow Tail (the largest brand in the US) and McGuigan Black Label, which features among the top three brands in Australia.

Although Warburn Estate started using GJC in 1983, its usage is being driven upwards by young consumers in both the domestic and American markets who are looking for sweeter wine.

At the time of the survey Hardys was sending between one and two million litres of juice a year to McGuigan for concentrating.

One winemaker notes that even within the past decade, reds at one winery where he worked have gone from being all dry to using RS, may at 5g/l - and most notably at the 'fighting brand level.'

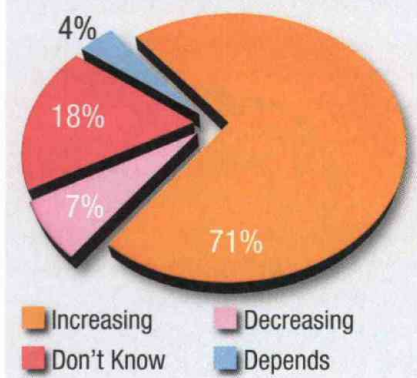
One winemaker says this isn't all attributable to 'exploitation' - apparently consumers are demanding ever higher levels of sugar. In this, he echoed the 47% of the survey respondents who felt that consumer demand - for soft, easy-drinking wine - was the main reason for sweetening wine.

Attributing increased sales to increased RS levels is still hard to quantify, especially if GJC has always been added. Wine flavour and style are only one part of why a brand is successful; there are a number of other factors such as packaging, advertising and promotion. One winemaker indicated that the link between price promotion and sales uplift is so strong that it swamps the ability to determine if higher RS means higher sales.

Purists who prefer their wine to taste dry will be interested to note that, according to two respondents, the use of GJC (as a sweetening agent) is actually *decreasing* in response to negative publicity and the increasing use of

gum Arabic. This last additive has a similar effect to GJC in that it fills out the palate but does not add sugar sweetness. Gum Arabic, like GJC can be found in many commercial European wineries though just how widely it is used is not yet known. ■

Winemaker opinion on the increasing use of grape concentrate



market (in 2009) were purchased from a multiple grocer, and sent to an independent laboratory for analysis of RS levels.

Sweetness - a guide

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WINERIES, WINE & USE OF RS

Winery	Addition, Brand or Grape Variety	Finishing RS
Angove's	Shiraz Cabernet, Merlot Cabernet	4g/l 11g/l
Beelgara Estate	All reds	5g/l
Berton Vineyard	Around 1-2g/l	3-4g/l
Casella Wines	Pinot Noir Cabernet Sauvignon	6g/l 11.5g/l
De Bortoli Wines	All reds	4-5g/l
Lindemans Winery	The Little Penguin	10-12g/l
McPherson Wines	Add around 3g/l	4-5g/l
Salena Estate Wines	Shiraz Cabernet	4g/l up to 6g/l
Warburn Estate	Around 3g/l	4-5g/l
Westend Estate	Shiraz Cabernet and Merlot	5g/l 6-8g/l

ANALYSIS OF FINAL RS LEVELS IN TOP 10 AUSTRALIAN BRANDS

Brand and Representative Sample	Alcohol - %	Producer or Distributor	Residual Sugar - g/l
Hardys Stamp Shiraz Cabernet '07	14.00	Constellation	8.1
Jacob's Creek Shiraz Cabernet '06	14.00	Orlando	4.9
Tesco Reserve Merlot '06	13.00	Australian Vintage	8.8
Wolf Blass Eaglehawk Cabernet Merlot '08	13.50	Fosters	10.6
Lindemans Bin 50 Shiraz '08	13.50	Fosters	11.5
Banrock Station Shiraz Mataro '08	14.00	Constellation	7.1
Rosemount Diamond Shiraz '06	13.50	Fosters	9.3
Yellow Tail Shiraz '08	13.50	Casella	12.4
McGuigan -			
Calloway Crossing Cabernet Shiraz '07	12.50	Australian Vintage	9.2
Oxford Landing Cabernet Shiraz '06	13.50	Yalumba	4.4