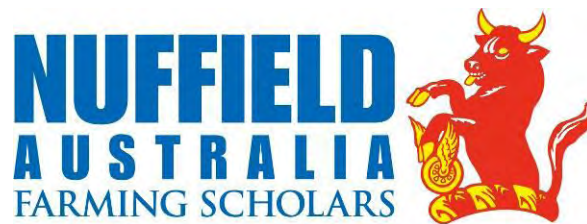


# **Regional branding and marketing**

**As a tool for improving returns to agricultural producers**

A report for



By Matthew Munzberg  
2008 Nuffield Scholar  
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# Foreword

In these competitive times most farmers are being expected to produce more and do it with steadily eroding financial returns. Most farmers have been achieving this by increasing farm size and/or productivity and utilising economies of scale to remain competitive. While this can keep an enterprise viable for some time, it becomes progressively more difficult to find the savings necessary to remain competitive. In some industries, such as the wine industry, bigger is not always better. As a vineyard/winery operation becomes larger it is increasingly more difficult to focus on the details needed to produce premium quality products. This is also the case in a lot of other agriculture industries.

The Australian wine industry has just come off a period of sustained growth and good returns for all participants. We are now in a major oversupply of wine grapes. This is causing financial returns for producers, as well as all other participants in the wine industry value chain, to be squeezed. Most of the growth in our export wine markets in recent years has been at the low value end of the market (below A\$5.00/bottle). Growth in planting has occurred in all grape growing regions in Australia. Australia's warm irrigated inland areas are where most of the wine comes from that is sold in the sub A\$5.00/bottle price range. These areas are where Australia can produce large volumes of fruit relatively cheaply. Planting in the cooler regions has mostly been done without a corresponding increase in the market for these more expensive products. These cooler areas normally have a much higher cost of production. This has led to a large imbalance in Australia's ratio of warm to cool area fruit. We currently have a glut of premium (relatively expensive to produce) wine, with the most obvious solution being to sell it into the growth section of the market (sub A\$5.00), if in fact, that was even possible. This would lead to large financial losses in our industry and will not solve the long term problem.

Wine Australia is the organisation funded by industry whose responsibility it is to generically market Australian wine overseas. They have recognized this problem and have changed the marketing focus from volume (at any price) to a regional based marketing strategy that may see less volume of wine sold, but at a higher value. This marketing campaign is called "regional hero's", and if successful will help to promote regions like the Barossa Valley to the world. In my opinion the Barossa Valley's reputation has been achieved largely by accident, with virtually no generic coordinated marketing campaigns run in the past. Most of our reputation has been achieved as a result of individual wine company marketing campaigns.

The current global economic crisis has made the job of promoting our wine regions even more difficult, and we are yet to see the full impact that this will have.

The Barossa Valley has a large number of small grape growers that produce a very unique product. Many of these are 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> generation family farmers. These small operations also give the Barossa Valley unique characteristics that make it a very desirable tourism destination. If these local growers are paid the same price for their grapes as those produced by much larger (and more efficient) producers in other areas, then eventually they will be forced out of business and potentially be absorbed by larger operators. If this was to become a trend, then areas such as the Barossa Valley could very quickly lose its unique character and ultimately the tourist appeal that has made it world famous.

All farmers that have a unique product should be rewarded by consumers who are prepared to pay a premium for their products. The only way this can be achieved is by effective branding and marketing of that brand. Regional branding is a relatively easy message for consumers to understand. If marketed well, these brands can be a very effective means of producing higher returns for almost any primary product. If the consumer can be convinced to pay a premium then there is more money available throughout the entire supply chain and perhaps, some of this will flow all the way back to the farmers themselves.



1 Vineyard in Stellenbosch, South Africa

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**All photos used in this report are the original work of Matthew Munzberg and should not be reproduced in any form without acknowledgement of their source.**



2 Grapes growing in the Barossa Valley

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3 Vineyards near Valencia, Spain

## Abbreviations

AVA -	American Viticulture area, defined geographic grape growing area (see GI).
BIL -	Barossa Infrastructure Limited. This is a private pipeline scheme that brings water into the Barossa Valley from the Murray River to be used for irrigation.
C -	Degrees Celsius, measurement of temperature (0C = 32F).
CEO-	Chief executive officer
GI -	Defined geographic grape growing area.
GL -	Gigalitre of irrigation water.
Ha -	Hectare land area of 10000 square meters.
MAT -	Moving annual total. The total of all wine sold in the previous 12 consecutive months.
mm. -	Millimetre of rainfall.
ML -	Megalitre. 100 mm of rainfall over 1 Ha is equivalent to 1 megalitre of irrigation water.
mS -	Micro Siemens. A measure of electrical conductivity in water, it is used as a measure of salinity. The maximum level recommended to be sustainably applied through drip irrigation on grape vines is approx. 1.2 mS.
Terrior-	French expression to describe the total environment that a grape vine is growing in includes things like climate, soil and aspect.



# Executive Summary

- The Australian Wine industry is in serious trouble with a massive oversupply of grapes meaning very low returns for grape growers.
- Australian wineries are having trouble maintaining market share and value in their markets, both domestic and international.
- Australia needs to focus on selling our quality wines at as high a price point as we possibly can, to improve returns for all members of the value chain (this may mean selling less volume than in the past).
- Vineyard area in Australia needs to be reduced in a targeted fashion to bring the industry into balance, without losing our unique and potentially higher value vines.

This report explores the potential for regional branding and marketing to improve financial returns for farmers. The report focuses primarily on the wine industry and the Barossa Valley; however it also makes some recommendations that will apply to most farming enterprises trying to improve the returns on their produce by using point of difference marketing.

- Farmers should try to ‘own’ their brands as much as possible, to minimise the leakage of profits to other shareholders/investors.
- Strong brands can give individual farmers some security when dealing with the mega-retailers that now dominate our markets.
- Strong, memorable brands will also help the consumers to find our products again and again. These repeat sales are where most of the profits lie. Someone once told me that ***“price will sell the first bottle of wine to a consumer, but the quality of what is in that bottle will determine if they will ever buy another bottle”***. When it comes to wine, quality is often very subjective and influenced by mood and environment, but it can, unfortunately, also be influenced by the price paid for the bottle. Areas like the Barossa Valley should be setting a voluntary minimum bottle price that branded wine is never sold below – even when on special. This will probably limit the volume of wine that potentially can be sold, but could improve the consumer’s perception of that wine.
- A brand is only as good as it’s marketing, without good marketing consumers will never get to hear about the product and will not be prepared to pay a premium for it.

- A strong regional brand with smart marketing can give consumers a connection with the people that are producing their food, even if it comes from a very long way away.

Australian wine is largely viewed as good quality, but relatively cheap, in most of our export markets. While this perception continues, wineries will not be able to pay a premium for wine grapes. More regionally marketed products should ensure that producers can be paid a premium for their grapes, and may be able to 'insulate' areas like the Barossa from the worst of the oversupply problems.

Regional marketing is by far the best way for farmers to achieve a point of difference because their only competitors will be other producers in the local area (and hopefully they may be able to all work together!). No one else in the rest of the world can copy or attempt to steal that market.

*The only place in the world that can grow Barossa Shiraz is the Barossa Valley*

The marketing of a region should be the responsibility of all stakeholders. In the Barossa we have the Grape and Wine association; however they cannot be expected to do all of the marketing for this region. It is up to individual grape growers, wine companies and even residents of the area to get the message out (word of mouth is the most powerful form of marketing there is). This report gives some background into the current issues in the wine industry and some actions that may be taken to help minimise those issues in regional areas like the Barossa Valley.

My study has shown that regional branding and marketing can be very effective in improving returns to producers.



4 Grape growing in Alsace, France

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# Introduction

I am a 4<sup>th</sup> generation grape grower, from the Barossa Valley in South Australia. I am married to Kendall and have 3 children, Bianca, Lachlan and Joshua. Our family has been growing grapes in the Barossa Valley for more than 80 years. I continue to farm some of the same land that my great grandfather first farmed in the early 1900's, although our land holding has increased substantially since his time under the stewardship of both my father and grandfather.

## The current crisis facing the Australian Wine Industry

The Australian wine industry has been on something of a roller coaster for the last 15 years. Vine planting area has more than doubled in this time (62 709 ha. in 1992/1993 to around 163 951 ha today ABS 2005). Exports have also grown spectacularly over this time; however they are now slowing and in 2008 contracted by 12.5% by volume and 17.5% by value (Wine Australia). This has led to severe over supply of wine which has seen prices paid for grapes slump.

*We are over-serviced as far as supply – we should collaboratively pull out vines, for as we stand now, we have one row too many to every five. **John Grant President Constellation Wines Australia, Wine Industry outlook conference 2008.***

The huge increase in planted area was achieved in part with taxation laws that had been favourable for managed investment schemes. These laws while good for the industry initially were kept in place for far too long and as a result we overshot the planting targets which were set down in Vision 2025. This document was produced by the wine industry in 1996 and was to be a roadmap of proposed growth for the next 30 years. In the early 2000's our growth was driven by a low Australian dollar, however the rise of the dollar in 2007 coupled with 4 out of 5 above average vintages lead to the current dramatic crash in our industry.

## The Barossa Valley

The Barossa Valley is located about 75 km almost due north of Adelaide. The valley itself is approx. 36 km long (from Williamstown in the south to St. Kitts in the North) and up to 14 km wide at its widest point. Altitude above sea level ranges from about 200 – 350 metres for the floor of the valley and up to 700 metres for the higher elevation vineyards of Eden Valley. The geology of the area is extremely old with some of the land areas able to be traced back 200 million years (Farmer 2008). The North Para River runs through most of the valley, this is a seasonal river that for most of the year is nothing more than a string of water holes, which are not suitable for irrigation. The mean January temperature for Nuriootpa is 21.3C.

## Recent History

The area was first settled by white German and English settlers in 1842, the German settlers being the larger group. They came to Australia to escape religious persecution in their homelands. The German influences can still be seen today in some of the old buildings and particularly the Lutheran churches and schools that are an integral part of most towns.



5 Langmeil Lutheran Church, Tanunda

The area also still retains a lot of the German tradition for food and festivals, with numerous traditional butchers and bakers in most of the larger towns. The first wine grapes were planted in the Barossa in 1847 and have been one of the success stories of local agriculture ever since.

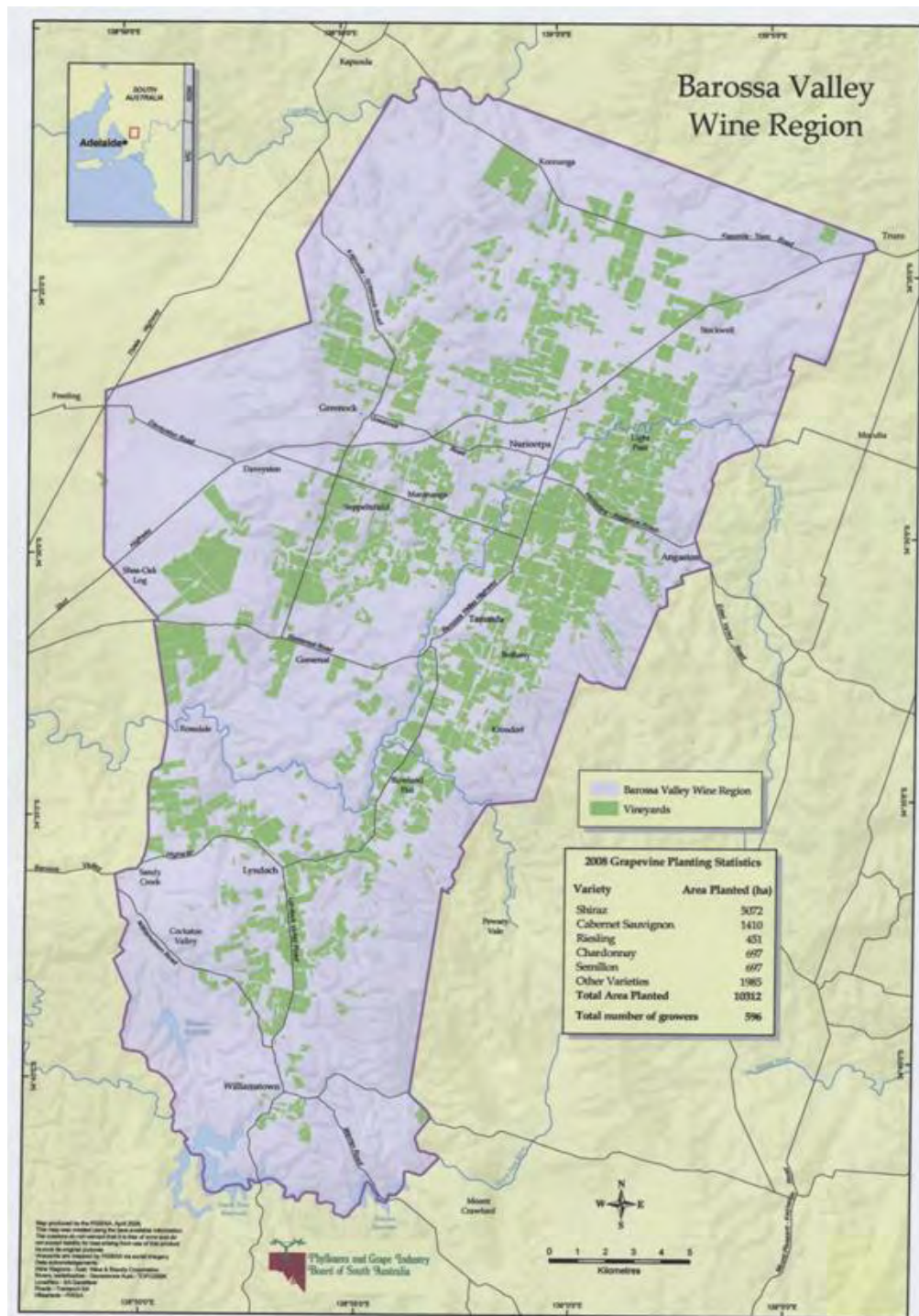


## Today

Today the Barossa Valley is arguably the spiritual home of the wine industry in Australia, with representation by virtually every major corporate player in this grape growing region. It produces around 70,000 tonnes of premium grapes each year that go into a broad spectrum of wine products from Penfolds Grange and Henschke Hill of Grace through to relatively low value generic wine products.

There are more than 550 individual grape growers with an average land holding of approx. 20 ha who supply grapes to more than 100 different local wineries. The wineries range in size from individual growers making wine from their own fruit to major corporate wineries that bring fruit from all over Australia to be processed in the Barossa.

The current oversupply of grapes is having a major impact. In the 2006/07 vintage the average Barossa grape grower lost **\$29,000** compared with a \$9000 dollar profit for similar sized growers in the Murray Valley (ABARE – survey of wine grape growing farms in the Murray Valley and Barossa regions 2006-2007). Barossa growers are paid more per tonne for the grapes they produce than those in the Murray Valley; however they produce much lower yields, 5.2 tonnes/ha in the Barossa to 17 tonnes/ha in the Murray Valley (because of much lower rates of irrigation approx. 1 megalitre/ha in the Barossa compared to 7 in the Murray Valley). In 2006-2007 Barossa farms received on average \$6687/bearing ha. compared to \$7416/ bearing ha. for growers in the Murray valley (ABARE – survey of wine grape growing farms in the Murray Valley and Barossa regions 2006-2007).



6 Barossa Valley grape growing region map. Thanks to Phylloxera Board of South Australia

## Climate

The Barossa Valley floor has a Mediterranean climate with just over 500 mm of annual rainfall, most of which falls in winter. In summer, temperatures can exceed 40C with extremely high rates of evaporation. This gives growers the ability to apply very small, targeted amounts of supplementary irrigation to produce the quality of grapes their particular

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market requires. While there are only relatively small amounts of irrigation used on most vineyards in this area, this water is very important to maintain vine health and to ensure that the vines can also produce a crop the following year. The Barossa is classed as a cool climate grape growing area; however it is at the warmer end of this classification (I believe it could quite happily grow warm climate type fruit with the right management, and so rightfully be classified as a dual climate area, if producers had enough suitable irrigation water available to them).

## **Irrigation**

The Barossa relies on 3 major sources of irrigation water. The first is surface water that runs off during winter and is stored in dams for use during the summer irrigation season. This is the main water source for the upper reaches of the North Para and Eden Valley areas.

The central Barossa Valley relies mainly on sub-surface water from an underground aquifer, however there has been a private irrigation scheme called BIL (Barossa Infrastructure Ltd. ) which has been operating for nearly 10 years now that brings better quality Murray River water into the area (this supplies a maximum of 6GL of water per year for irrigation). There are also vineyards that use SA Water infrastructure to bring water from the Murray River. Limited amounts of recycled water are also used in some parts of the Western Barossa Valley. The large amounts of money spent on establishing the BIL scheme have ensured that the Barossa now has quality water to sustainably continue to grow grapes into the future; it has also taken some pressure off the aquifer that was seriously over allocated. The low water allocations out of the Murray River over the last few years have put the financial viability of the BIL scheme at risk, and it can only continue with this level of allocations for a couple more seasons.

The aquifer water that has been used for irrigation is at the upper level of suitability for sustainable viticulture production (our bore is producing water at about 1.6 mS, the maximum recommended for continuous use on grape vines is 1.2 mS, our BIL water is averaging less than 0.5 mS.). 98% of vineyards in the Barossa valley use drip or trickle irrigation, the remaining 2% are dry grown (no irrigation used), and there is no other form of irrigation in use (ABARE – survey of wine grape growing farms in the Murray Valley and Barossa regions 2006-2007).

## **Barossa Grape and Wine Association**

In January 2006 at a large public meeting it was agreed that this group would be formed to collect levies on all grapes produced in the Barossa Valley, this money would be used to 'promote' the Barossa region and hopefully improve returns paid to grape growers.

The organization began collecting funds from the 2007/2008 vintage and is unique in that both grape growers and wine makers contribute to the scheme. The organization now employs a CEO and viticulture officer – the first time our region has been represented by professional persons (rather than volunteers). This organization will go a long way towards promoting our grape growing region on the world stage and will be our best chance to improve the returns we are paid for our grapes. This organization will need to work closely with Wine Australia to get the maximum benefit from their regional hero's campaign for our area.

## **Climate Change impacts**

Whilst I am yet to determine what impact climate change may have on the Barossa Valley, I believe that it is important to consider any future implications that a shift in climate will have on this area. While I believe that temperature increases will not have any significant impact on our ability to grow grapes (we could have to change some varieties and wine styles produced here), I believe our biggest challenge in this area will be sourcing suitable water for irrigation. If temperatures do increase, the Barossa will rely even more heavily on irrigation than now, due to higher evaporation rates.

## **Our Vineyard**

Our family Vineyard is 45ha of relatively flat country on the eastern foothills of the Barossa Ranges, halfway between Tanunda and Nuriootpa. Our soils are mostly sandy loams 30 – 100cm deep with a friable mottled clay base.

We utilise 2 sources of water for supplementary irrigation, our primary source is the private irrigation scheme that brings water from the Murray River into the Barossa (BIL). Our second source of water is a bore (water well) that is marginal quality water for grape production. Due to the drought in Australia for the past few years and subsequent water restrictions; we have had to rely on this bore water to top up our requirements. Our vineyard



receives (relatively) very small amounts of supplementary irrigation, less than the equivalent of 100mm of rainfall per year. This has enabled us to continue to produce quality fruit without the large yield fluctuations that were experienced before we had irrigation in the Barossa.

Our vineyard has 13 different grape varieties, and we sell most of the grapes we produce to other wine companies in the Barossa, including Yalumba, Peter Lehmann and Barossa Valley Estate.

### Our own wine

We produce our own wine label called 'Mad Dog'; at this stage a very small part of our business. Mad Dog currently uses less than 4% of our total production, in a normal year. We produce a Shiraz wine, with our first vintage being in 1999. Since our first Shiraz vintage we have also started making an Italian Sangiovese and plan to add our first white wine shortly, a Spanish Albarino. Our wine sells out most years, with around 50% of it sold in export markets.



7 Mad Dog Sangiovese

## Why should we brand?

Most food products are sold as a branded product. However, most farm commodities are not sold by the farmer as branded products. Somewhere during the manufacturing process virtually all agricultural commodities are given a brand and then marketed under that brand (one exception may be some fresh produce i.e. fruit and vegetables and meat, although this is changing). Our commodities need to be sold as branded product so that our consumers can recognize our products and (if happy with the initial purchase) find our product again among the sea of other branded products available to them. **Achieving repeat purchases should be the main incentive for branding a product.** Brands that are owned by people close to the start of their supply chain can also obtain some security from ownership of a successful brand. If consumers demand a successful brand, it becomes very hard for retailers to replace that brand on their shelves with someone else's product. Marketing is a very important part of any successful brand. Without successful marketing any brand will lose market share to its competitors and potentially achieve lower returns for all members of the supply chain. If a

brand is successfully marketed consumers will be prepared to pay a premium for that product (or alternatively a larger quantity can be sold), this will mean there should be greater returns for all participants in the supply chain, flowing all the way back to the producer (providing the cost of marketing does not exceed the premium paid by the consumer).

## Types of brands

Brands can take many forms.

- They can be multinational brands that are recognized all over the world like Coca-Cola, McDonalds and Fosters etc. These are usually examples of very successful marketing campaigns and normally achieve returns for their products well above their cost of production. These brands, because they are not owned by people close to the production end of the supply chain (usually owned by shareholders), they are not good at passing on these returns to the people that produce the primary product. Often most of the higher returns finish up in the pockets of shareholders or other investors.
- They can be very small companies that are only supplying to a very limited market, but it is still very important for their consumers to recognize their product. These are normally brands owned by the farmers and are often (but not always) poorly marketed. With good marketing (and effort) these can grow spectacularly. Most of these brands are only well known in their regions, some Barossa examples would be Jimmy's horseradish or Linke's mettwurst.
- They can be groups of companies or producers that are marketing their goods for a collective good (Cooperatives etc. like Fonterra milk, NZ). They may be able to achieve economies of scale or get access to markets they would not otherwise be able to supply. These companies can be a good way of marketing individuals' products; however they can have problems with competing interests, personality conflicts or even regulatory difficulties. They often have a limited lifespan and need to be able to change their structures as their size or markets change.

- Brands can be based on a manufacturing process or method of production. These include products that are marketed as organic or biodynamic. Increasingly there are also brands that are marketing their 'green' credentials, such as Grove Mill winery in New Zealand who are successfully marketing their wine under a 'carboNZero' logo and are attempting to offset all of their carbon emissions. Consumers and retailers are paying a lot of attention to this group at present, however because of a lack of consistent regulation or standards consumers may very easily become disillusioned and not pay the premiums needed to support these schemes. We must be careful that the cost of complying with a particular scheme does not exceed the premium the consumer is prepared to pay. Some farmers in the UK are being expected to comply with retailers 'green' marketing schemes, but are not being paid a premium for the extra time and effort that it has taken to achieve these qualifications.

The group that I have studied are regional brands. These are brands that are marketed by the geographic region that they are produced in. These can range from very small areas, such as individual farms or estates, all the way up to states or even whole countries. Examples of each of these include (from the wine industry), Henschke Hill of Grace (individual estate vineyard), Barossa Valley Shiraz (grapes that are grown in the GI of Barossa Valley), South Australia wine (grapes grown in SA) and finally Wine of Australia (grapes grown anywhere in Australia).

## **Regional Brands**

I chose to study this group because I feel these are a very easy group for consumers to understand and impossible for anyone else in the world to copy. All of the other groups I have listed above could be copied by anyone anywhere in the world. Anyone in the world can grow Shiraz grapes, but the Barossa Valley is the only place that can grow 'Barossa Shiraz'. Anyone can make cheese, but only milk produced on King Island can make King Island cheese etc.

Consumers, I believe, already have a very good understanding of 'place' when it comes to the food they buy. It is relatively easy to get them interested in where and how their food is produced (the recent surge in popularity of farmers markets is a good example of some consumers wanting to feel closer to the people that produce their food). This is also why 'buy

local' type campaigns are very difficult to counter for anyone that is importing food from any distance. So far the size of the consumer group that really cares and is prepared to go out of their way to buy these products is relatively small, but will I suspect grow over time.

### **Protection of your regional brand**

One of the recurring messages that I was given during the discussions I had on my scholarship was the need to protect your brand. I believe the first step is to very clearly identify and protect your point of brand difference.

If you are going to market yourself as a region, you will need to identify exactly where the boundaries of your region are and what products will be able to use this brand. The wine industry has an existing system of geographic region identification (GI). The process of setting these areas up is quite complicated and can be fairly contentious. Once an area is declared it becomes illegal for anyone else (anywhere in the world) to use that name to sell a product that is not produced in that area. One of the best known examples of this is Champagne (France).

Getting the size, area and name right is very important to the success or otherwise of your future marketing. A regional area needs to be small enough to be 'unique', however it also needs to have a large enough production base to be able to supply all of its potential markets. The name of the area is also important to the future success of a brand. The Barossa grape growing GI has two sub regions, Eden Valley is the high altitude area and Barossa Valley is the central valley region. Most consumers do not realise there is a difference between wine labelled as 'Barossa' (wine from anywhere in the GI) and wine labelled as 'Barossa Valley' (grapes only grown in the Barossa Valley sub region). This is one example of ensuring that names of regions should be clear and not cause confusion in the minds of consumers.

### **Protecting the quality of your brand**

Once you have established the 'regionality' of your brand, you then need to ensure that consumers will want to buy your product and pay a premium for it. Consumers will try a product once, but repeat sales are where most profits will be made, if they are not happy with a product they will not come back with repeat sales.



Producing a quality product is the most important ingredient in a successful brand. Consumers need to trust that they will get what they expect, every time they buy your product. To get this quality it is important to have some kind of standard that producers comply with. Idaho potato growers have inspectors in all packing houses checking that all potatoes comply with their certification system. Potatoes that do not meet minimum standards are not sold as Idaho potatoes. This brand has survived for more than 70 years; and this quality system (and the enforcement of it) is one of the reasons for its long term success.

How this can be applied to the wine industry would be more difficult, as it would not be practical to have inspectors in every winery, and wine quality is somewhat subjective. One way of preserving the perception of quality could be to minimise discounting of our product, how this could be done without being accused of price fixing would present some difficulties. Would it be possible to set a voluntary minimum bottle price (perhaps A\$10) for anything that is labelled as Barossa? This will not change what is in the bottle, but could change the consumers' perception of it. Wine exported from Australia at more than A\$10/bottle currently only accounts for 3% of all exports (Wine Australia), the Barossa Valley currently produces only about 4% of Australia's wine grapes (Wine Australia).

### **Marketing your brand**

No brand will sell well without effective marketing. Once the point of difference of a brand has been established, it is imperative that the story behind that brand is effectively communicated to the consumers. It is only once the consumers have accepted the 'story' of the brand that they will be prepared to pay a premium for that product.

In the Barossa I believe we have a number of great 'stories' that we can tell our consumers. We have some of the oldest grape vines in the world, our vines grow in some of the most ancient geology of any wine growing region, we have people who have been farming the same land for generations etc. Unless our consumers get to hear our 'story' they have no reason to pay a premium for our product. I believe the internet gives producers a tool they have not had for decades, the ability to communicate individually with each one of their consumers. Using the internet we can tell our 'story' and deliver it directly to our consumers homes for them to peruse at their leisure and with email databases we can continually remind them of that story or even update it for them.

## Niche markets

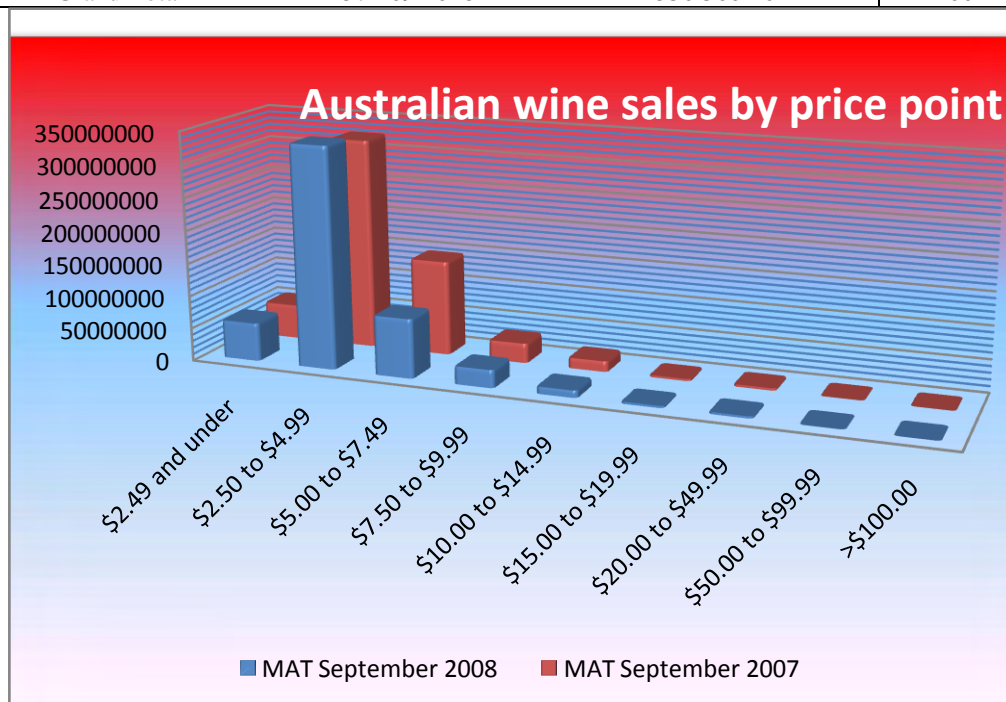
Niche markets can be quite large or relatively small. They can be extremely lucrative if you are one of the first to identify and then exploit a niche. Niches can also quickly become very overcrowded and uneconomic if too many players try to exploit a particular niche. If you are marketing to a niche it pays not to be seen to be too successful, as others will quickly join you in exploiting your market. Most wine produced in the Barossa Valley is marketed into a fairly crowded niche market.

The graph below shows the relative volumes of wine exported from Australia for the last 2 years. More than 97% of bottled wine exported was sold at price points below A\$10, so most of the Barossa Valley is competing in a segment of the market that accounts for around 3% of all exports of Australian bottled wine and everyone else is trying to move their products up to these price points. Somewhat disturbingly, over the two years that I have figures for, our export value actually went down. Figures used with thanks to Australian Wine and Brandy Corporation and Wine Australia.

TABLE 1.

Volume (litres) of Bottled Australian Wine Exports

Price Point	MAT September 2007	MAT September 2008	% for 2008
\$2.49 and under	52 987 345	58 724 021	11
\$2.50 to \$4.99	322 845 803	336 982 429	64
\$5.00 to \$7.49	144 588 299	90 149 008	17
\$7.50 to \$9.99	29 780 865	26 909 929	5
\$10.00 and over	22 489 736	17 595 077	3
Grand Total	572 692 048	530 360 464	100



# Places I visited and my observations of them.

## Marlborough wine grape growing region

Marlborough is situated in the North of the South Island of New Zealand. This region is famous for growing New Zealand Sauvignon Blanc. There has been little coordinated marketing of this region in the past (there has been no real need for it). There have not been enough grapes grown in the recent past to supply the market demand; there have been large scale plantings and a record harvest that has the potential to change this situation in the near future. Like the Barossa Valley, this region is perceived by consumers as a single variety producer, what will happen when the consumer fashion for Sauvignon Blanc changes? Growers here are worried about a future change in consumer wine 'fashions' and are looking for their 'next' grape variety. They are looking at varieties like Pinot Gris as a possible second variety.

## Grove Mill winery Marlborough NZ

Grove Mill markets itself as the world's first carbon neutral winery. Like Australia, New Zealand has similar issues with combating 'food miles'. This winery has done a lot of work to try to account for their carbon emissions and reduce or offset them wherever possible. I believe all other wine producers should be taking notice of

what Grove Mill are doing and trying to reduce their carbon emissions wherever possible. One problem I see for Grove Mill is that if a lot of other wineries do follow their lead, they potentially will no longer have their marketing point of difference.



8 Grove Mill Sauvignon Blanc with CarboNZero logo

### **Lodi rules for Sustainable wine grape production**

Lodi is a large production area in California situated south west of the Napa and Sonoma Valley grape growing areas. Growers pay to be part of a sustainable certification process, which is 3<sup>rd</sup> party audited and gives them higher grape prices at some wineries that are using the 'Lodi Rules' logo on their products. Lodi rules is a certification system that gives clients all the way down the supply chain peace of mind that the wine produced has been done to a 'best practice' system, and producers have the physical records to prove it. It is a relatively expensive system to be involved with, farmers will need to see some financial benefit before they would be prepared to commit in a large way (this is starting to happen with winery bonuses and insurance discounts for members).

### **Idaho potato commission**

Any potato that is grown in Idaho is eligible to be sold as an Idaho spud. This is a 70 year old regional brand. Growers pay a levy on all potatoes produced. This gives a budget of more than US\$12m to be used on policing their standards and promoting their product. It is very important to them to have minimum standards for their product. Growers are being paid a premium for their potatoes compared to what growers receive in other U.S. states. Potatoes that do not meet the rigid quality standards are not sold as Idaho potatoes; this is done to maintain their brand integrity as premium quality.

### **Washington Grape growing area**

This area is a relatively new grape growing area. It is producing very high quality fruit and quite high value wines. It is made up of several smaller AVA's (American Viticulture Area), including Red Mountain. The Washington grape growers have a marketing body that employs 4 staff and are beginning to produce some very good results for their area. Longshadows winery is utilising 'celebrity' winemakers to turn some of the best grapes in this area into much sought after wines. From my perspective this area is somewhat opposite to what I am used to; most of the new wineries in this area start making wine before they have any vineyard. In our area the vineyard usually comes first followed by a winery (when we can't sell our fruit). The people that I met are very enthusiastic about their region and are producing very good wine.



### **So Maryland – So Good**

This is a marketing scheme for any product produced in Maryland. It was set up using tobacco adjustment funding. This money will run out shortly, the future of this campaign appears a little uncertain. It concentrates on a buy local theme, this works very well for



9 Maryland 'Our farms, Our future' vehicle number plate

them because of the large east coast USA population base close by. They are trying to encourage more tourism visits to the area with maps, guides and tie ups between local businesses (with an emphasis on food and wine).

### **Wine Australia, New York**

Wine Australia has offices in major wine markets all over the world. They have recently changed their marketing focus to try to highlight the various wine regions of Australia and the vast differences between them and the wine they produce. They are promoting a tie up between different regions and the grape varieties that grow particularly well in them. This has the potential for Australia to sell larger volumes of higher value, regionally branded wine; however it will take a long time to get this message to our consumers. I believe that the message of Australia's regional diversity should be targeted at the younger wine drinkers (18 – 30's) as this is where the next generation of wine connoisseurs will come from and it will take us some time (possibly a whole generation) to change ingrained perceptions of Australia in the current consumers of wine. Having said that we should not stop trying to get this message across to our current consumers but I believe in the long term we will be more successful with educating the younger age groups.

## Spanish Mediterranean grape growing regions

These regions have quite similar climatic conditions to the Barossa Valley. The soils and low rainfall mean that vine vigour is extremely low. Low yielding vines can normally produce very high quality wine. With more modern wine making and grape growing practices, this area has the potential to produce extremely high quality wine. This area was decimated with the grapevine destroying insect Phylloxera and as a result the oldest vines here are only 30-40 years old. Some growers in these areas are looking at alternative grape varieties, to give them something different for their markets.



10 Vineyards in the Alicante wine region, Spain

## Cave De Turckheim, Alsace France

This is a large long established Co-operative winery. They require 100% commitment from their growers – farmers supply all of their production or none at all. This area operates (as most in France do) under very strict wine making and grape growing legislation. They are only allowed to grow approved grape varieties, they have caps on how many grapes they can grow per Hectare and are paid a minimum price, they must do all their processing within the region and they also have to comply with an approved bottle shape for the finished wine. While these regulations might seem harsh to some of us, it does give their area price and production stability. This area is virtually fully developed – they have no more land that can be planted to vineyard. They are using soil type (part of the terrior) as a marketing tool.

### **Cave De Tain, Hermitage France**

This is a very traditional grape growing area in the Northern Rhone valley. They have fairly small growers producing grapes with virtually no mechanization. Most vineyards are on steep hillsides and are very densely planted. Cave De Tain is a very modern winery that has spent a large amount of money in the last few years to upgrade its wine



11 Cave de Tain, Hermitage, France

making facilities. They have the ability to make relatively small batches of wine and only blend them late in the winemaking process, to maximise the quality of their finished product. They are struggling to compete against ‘new world’ producers on price. They have started marketing some of their wine based on the soil type that the vines are growing in and so are trying to highlight the sub-regional differences. This is a good way for them to differentiate their products in a regulatory environment that will not allow them to experiment with other grape varieties or other growing techniques.

### **United Kingdom and the consumer end of our market chain.**

While here I spoke to a number of independent wine outlets as well as a freelance wine journalist. Australian wine is well known and some large brands are well recognized by consumers. However the middle tier of Australian wine is not well understood. Most consumers only recognize the Aussie icon wines (Grange, Hill of Grace etc.) or the large volume brands (Yellow Tail, Jacobs Creek etc.). As a general rule they do not understand the different grape growing regions of Australia nor do most of them care. This latter group, I believe we will not be able to get our message through to (they are mostly influenced by price), however it will still be important to put some effort into this group as this is where the next generation of connoisseurs will emerge from.

Some large supermarket chains appear to be beginning to market regionally branded ‘home brand’ wine (e.g. Marks and Spencer Australian Cabernet Merlot). Regions like the Barossa may be able to take the next step and convince them to add to their line up a Barossa Shiraz or



an Eden Valley Riesling (though probably not at very high margins). Barossa wine will mostly be bought by a fairly small niche of wine ‘geeks’ who will take the time to learn about wine growing areas and will actively look for something different. These ‘geeks’ will probably not be very loyal, as they will be continually looking for the next big thing (variety, grape growing area or label).

### **United Kingdom Wine Industry**

While in the UK I visited a number of local wine producers. The wine industry here surprised me with how enthusiastically they are growing grapes in what appeared to me to be very difficult conditions (summer rain the whole time I was there). They are producing some very good cool climate and sparkling style wines. I guess this should not be too surprising as the climate and soils are similar to some of the grape growing areas in Germany. Any global climate shift may help this particular industry. They have a very big advantage with the size and parochialism of consumers in their own country. This industry will grow in the future and while it is viewed with some disdain by the rest of the wine world at the moment, I believe it has a bright future.

### **Glen Carlou, Hess group winery Stellenbosch South Africa**

This is a very impressive modern, medium – large winery in a spectacular location. The tasting room is also a restaurant and contemporary art gallery, showcasing some of the Hess art collection. The winery is located in vineyards on a hillside with spectacular views across the valley to the mountains.



[12 Glen Carlou, Stellenbosch, South Africa.](#)

They use mainly estate grown grapes to produce very good quality wine. Using

the resources of the Hess group they have access to a mature marketing system that sees their wine exported all over the world, with an emphasis on Europe. As with most South African vineyards most of the vines are hand worked (because of the low cost of labour), this gives them the ability to produce wine with a high level of manual input.

### **South African Biodiversity and Wine Initiative**

This scheme has been set up by the South African wine industry and the World Wildlife Fund (WWF). This was not initially set up as a marketing scheme, but rather as a nature conservancy scheme. It is a pilot scheme to see if this kind of co-operation between an industry sector and conservation groups could be extended to other industries. It identifies areas of land that would provide the most benefit from an ecological point of view and endeavours to work with the owners of these properties to preserve native habitats for the future. This scheme will have huge marketing potential in the future for selling products to 'green' conscious consumers, in fact without the marketing benefits I do not see a lot of incentive for farmers to be involved in any significant way. I believe that this is an exciting partnership that will still need some nurturing by all involved parties, but the potential from both an environmental and marketing standpoint could be very rewarding in the future.

### **South African Wine Industry**

While in Cape Town I attended WineX 2008. This was an event where about 200 South African wineries got together to showcase their wines to the general public. This event highlighted to me the difficulty that a small producer has in making their message heard amongst the throng of other messages that are in the market place. I was very impressed with both the quality and diversity of wine that was on show. It showed me that South Africa has the ability to produce most wine styles and do it quite well. It seemed to me that there are a lot of foreign investors in the wineries I spoke to, with seemingly a large number having owners that live in other countries.



# My Observations of market potential for Australian wine (in the places I visited).

## **United States of America.**

Culturally a very easy market for Australian companies to operate in. This is an extremely fragmented market with different and quite complex rules in each of the 52 states. To be successful a number of distributors would be needed for an independent wine manufacturer to be a national player in the US. Small wineries are probably better off to concentrate on individual state or even city markets (New York and Los Angeles are both potentially bigger than the entire Australian domestic market).

## **United Kingdom**

Culturally an easy market for Australian companies to operate in. A very parochial market, however Australia is seen as a good second choice by most wine consumers. Australian wine is generally regarded as cheap and cheerful with some very high priced and well recognized exceptions (Grange etc.). Most consumers do not have a good understanding of the geography of Australia or that there are even different wine growing areas. They are often surprised when confronted with the diversity of Australian wine. English people that have visited Australia seem to have a much higher perception of our wine than those who have never been, even if they have not actually been to one of our wine regions (this includes decision influencers such as wine writers, distributors, buyers and sommeliers).

## **China**

Culturally a much more difficult market for Australian companies to operate in. The huge population make this an inviting market to try to break into. There are rapidly rising incomes; in fact, we were told there are more millionaires in China than all of the rest of the world put together. However, approximately 80% of all groceries in China are still being sold through wet markets. The wine I did see on sale in state run Supermarkets (where some of the more wealthy do shop), was virtually all local Chinese produced wine and being sold at very low price points. China is a country of contrasts, particularly rich and poor. Very few Chinese drink wine, however the sheer number of people mean that if only 5% of the population were

to drink wine, this would still be a huge potential market. Wine is seen as a western habit that many Chinese wish to indulge in.

China will eventually become an important market for Australian wine; however that day is still some way off. There will be rewards for the first companies to successfully break into this market, however it will require a massive effort and some luck to be one of them. Companies wishing to market to China should start with individual city markets, to get a foot hold (such as Beijing, Shanghai or Hong Kong). Companies will be required by Chinese authorities to have local joint venture partners, however these agreements should be treated with caution and entered into with eyes wide open (it seems to me that often the Chinese joint venture companies have somewhat different agendas for the foreign currency they have been given by their partners to spend).



13 Lester Marshall fellow Nuffield scholar, marketing in China?

# Can regional marketing really improve returns for farmers?

From my observations, definitely yes! If a regional brand is set up properly, if it has a clear point of difference, and is marketed well, then consumers will pay a premium for it. The best example that I saw in my travels was the Idaho Potato Commission in Boise. I walked in thinking that a spud was a spud, but they showed me that with good marketing and rigidly enforced minimum standards, consumers would recognise the brand and pay extra for it and so farmers could be paid a reasonable premium for their potatoes. This brand has now been in existence for more than 70 years and appears to be continuing to grow strongly.

In the wine industry the French are certainly very good at regional branding. Their consumers seem to understand the regional differences quite well (even if I am still struggling with them). I wonder if perhaps they may have gone too far with regionality, I am not sure if some of their smaller regions are actually big enough to supply all of their potential markets. Somehow we need to get our consumers to understand that there is more to Australian wine than just Grange and Yellowtail or Jacob's Creek. We need them to realise that there is a whole range of varieties, regions and styles of Australian wine at a range of price points and all they need do is spend just a little more to gain access to a very exciting range of world class wine.

# General Recommendations/observations for Agricultural producers

- Clearly define your region and products.
- Ensure there is a point of difference in products that will encourage consumers to pay a premium for it.
- Control the quality of your product and do not sell substandard product as branded product.
- People that use the brand should be committed to promoting and improving its perception with consumers.
- Try not being 'pigeon holed' as an area that can only do one thing well.
- Maintain diversity in your product without losing your marketing focus.
- Try to ensure fair returns for all members of the value chain. Long periods of low returns will lead to few young leaders in that industry. Young people will not be encouraged to enter an industry if they cannot see a secure financial future for themselves. If an older farmer's children are not interested in running the farm, he will probably not have any other choice but to sell the farm. Low returns for farmers may lead to increased development pressure on a region; we were told one of the most profitable crop rotations for cereal farmers is wheat, barley, houses.
- Try to maintain price levels for your product – once the price has gone down, it is very difficult to get it back up again.
- Resist discounting of your product, it may be a good way to move a surplus, however it cheapens the perception of your product in your consumers' minds (and they may come to expect it all the time).
- Get to know your consumers. Find out what they are currently buying, and why. In the past some of this information was gathered by the retailers. Producers will be expected to supply more of this kind of information to retailers in the future.

## Recommendations for the Barossa

- Keep the message simple – most consumers I met had heard of the Barossa, however did not realise what it means or even where it is.

- All wine industry stakeholders should work together as a team with the common goal of promoting our wine and our region.
- Be patient, it takes time to build a good brand, but a good name can be lost overnight with adverse publicity or public bickering.
- Keep the quality of wine produced uppermost in every aspect of production, this is what will continue to drive our reputation.
- This is a very unique region in the world of grape growing and wine making, everything must be done to preserve the character (and therefore the tourism appeal) of the region.
- The physical infrastructure in the Barossa is on a par with the best grape growing regions in the world. It needs to be maintained to world's best standards.
- The Barossa's grape vine resource is the envy of the rest of the world. The old vines and unique varieties / clones that are here need to be preserved and protected – without stifling the future needs of the area and the people that derive their income from it.
- Continue to make the best use of the Barossa's proximity to Adelaide and the population base that is on the doorstep.
- Continue to identify the things that make the Barossa Valley the envy of the rest of the wine world and promote them whenever possible. Consumers in our major export markets do not have a good knowledge of the people involved, or the Barossa region (or for that matter, Australian wine in general), so there is a need to be constantly promoting our wine to them.
- Growers must be able to make a fair and reasonable living out of growing grapes. While grape growers struggle to make a comfortable living, there will be stronger development pressure put on the area. Older farmers will be forced to sell their farms to developers. Young people will not see any incentive to enter the industry.
- Continue to market the unique Barossa culture – food and festivals etc. in conjunction with the wine. There is a lot of unrealised potential to promote Barossa wine along with art, music and even poetry.
- Suggest to wine producers in the Barossa that they not sell Barossa branded wine below A\$10.00/bottle, as selling below this level will probably not enable a fair financial return for all members of the value chain. Selling above this price point will also reinforce, in the minds of our consumers the premium quality of our product.



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May 2007

Phylloxera and Grape Industry Board of South Australia

<http://www.phylloxera.com.au/>

## Plain English Compendium Summary

<b>Project Title:</b>	Regional branding and marketing to help improve returns for agricultural producers.
Nuffield Australia Project No.:0804 Scholar: Organisation: Phone: Fax: Email:	Matthew Munzberg Munzberg & Co. P/L 0418 396 841 (08) 85 632 027 <a href="mailto:Kammunz@hotmail.com">Kammunz@hotmail.com</a>
<b>Objectives</b>	To investigate how other successful regional brands are funded, marketed, organised and managed. I wanted to see for myself how effective a good regional brand could be at increasing what the farmer is paid for his produce. I also wanted to get a feel for how Australian wine is perceived in our major export markets (USA and UK), to give me a better understanding of the difficulties involved in marketing to them.
<b>Background</b>	Regional branding is the only way of distinguishing your product from a competitor's, which cannot be copied or taken away by them. The only place in the world that can grow Barossa Shiraz, is the Barossa Valley.
<b>Research</b>	I have studied regional branding and marketing schemes in a number of countries and interviewed the people that run them and contribute to them. My research took me to New Zealand, California, Washington state, Idaho, Maryland, New York, Spain, France, Germany, the United Kingdom and South Africa.
<b>Outcomes</b>	I now understand a lot better the problems associated with marketing our wine on the other side of the world and how difficult it is to make your product stand out from the flood of other products on the supermarket and bottle shop shelves. I have identified the main reason why we should be branding our products – to enable repeat sales. I have a very good feeling for some of the types of marketing that may be effective in promoting the Barossa Valley.
<b>Implications</b>	I believe that personal contact will be the best way to maintain markets – not necessarily face to face contact, but contact at a personal level with our consumers. This is what we will need to do in the future to sell more of our products.
<b>Publications</b>	<a href="http://barossa-grapegrower.blogspot.com/">http://barossa-grapegrower.blogspot.com/</a>