

A photograph of the Statue of Liberty in New York City, with a city skyline in the background. The statue is holding a tablet in her left hand. The word 'ALTERED' is superimposed in large, bold, black letters across the top of the image.

ALTERED

The concept of 'United States' is a contradiction in terms when it comes to the way America controls alcohol. This makes it incredibly tricky for New Zealand wine producers, in fact for any wine producers trying to enter the US market, let alone compete effectively within it. The country operates in a disjointed and disconnected manner that's anything but 'united' when you consider the rules and restrictions around the distribution and sale of alcohol – regulations vary from state to state and even from community to community. This state of chaos is all a result of a radical and misguided temperance movement which strived to save people from the perils of drinking.

The fervour around drinking, or rather non-drinking, culminated in the passing of the Eighteenth Amendment to the US Constitution in 1920 which forbade the manufacturing, sale

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and transport of 'intoxicating liquors'. The catastrophic results of this action included the growth of organised crime; a country rife with gangsters who controlled the illegal production and distribution of alcohol (bootlegging); a general disrespect for the law as practically everyone broke the law of Prohibition; an increase in alcohol consumption and immorality; massive political corruption; an overburdened police and penal system and the subsequent decimation of the American wine industry. And to this day, some 80 years after Prohibition was repealed, an over-complicated alcohol distribution system is one of its lasting legacies.

Gordon Palmateer, president of Palmateer Consulting LLC, explains: "The three-tier system was established at the end of Prohibition in 1933 in an attempt to create fair and lawful competition." Palmateer, who has been heavily involved in the New Zealand wine industry for the past four years, serving as the US wine advisor for New Zealand Trade & Enterprise (NZTE) and still working with several New Zealand wineries in the market, says, "I do not believe the three-tier system offers any advantages to domestic wineries versus foreign wineries." He sees the biggest obstacle to being successful in the US market is about "finding a distributor that is interested and that can pay enough attention to your brand". He advises all wine producers to look at the US as 50 different countries and focus on a few key markets. "Each state has its own laws and practices which can be overwhelming and costly," Palmateer says.

Mark Miller, vice president of sales for retailer Crush Wine

& Spirits based in New York, describes the three-tier system as being: 1. Importer/supplier; 2. Wholesaler and 3. Retailer. Like Palmateer, he also doesn't see this system as offering any real disadvantage to imported brands. "Very few domestic wineries have the ability to navigate the complexities of 50 different states, all with differing levels of complexity, obstructionism and taxation. Most use a 'supplier' to market the wines for them which equates with 'importer' for an imported wine," he says. Palmateer explains this adds a level of cost for domestic wines as well but admits "the big advantage for domestic wines is really freight and importation costs imposed on foreign wines". He says that to be really competitive on an equal quality basis, imported brands still have to "either give up some margin at some point along the way to be price-competitive at the retail level, or be so unique that comparable choices are not really available at the same price point, for example, French Red Burgundy".

However Nick Frei, import brand manager at Quench Fine Wines, an Arizona-based wholesaler/distributor, says the issues of the US three-tier system for New Zealand wineries is more about getting representation through the first and second tiers. He suggests that many distributors and importers would consider two to four New Zealand wines in each varietal/price point is plenty. "They probably see the New Zealand category as one that doesn't need a great deal of competition within their own portfolios," he says.

So assuming a Kiwi wine producer can manage to find an importer (be it in one state or nationally), just how big a slice of

the American pie is feasible for New Zealand wines?

Palmateer is positive. "The category for New Zealand wines is healthy and has been growing steadily for the past several years," he says. "Between 2011 and 2012 New Zealand wines increased by 24% in value and 25% in volume." Overall New Zealand wine still represents only about 1% of all wine sales in the US, but New Zealand Sauvignon Blanc accounts for 22% of all Sauvignon Blanc sold.

But one wonders how much US consumers really know or care about New Zealand given its small percentage and also whether consumers differentiate between New Zealand wine and Australian wine. Frei says that in Arizona, the New Zealand Sauvignon Blanc category is "certainly a formidable one given our warm climate". And he says consumers often specifically ask for a New Zealand Sauvignon Blanc when ordering wine by the glass in restaurants. "There is definitely a differentiation from the wines of Australia, as many people unfortunately still associate Australian wine with critter labels and extreme varietal price-points," Frei says. "Folks that have a little more knowledge of world wine production also recognise

niche for well-constructed, food friendly and inexpensive wines". He also points out that at that value category, consumers are more than happy to buy wine from pretty much anywhere if the pricing is competitive and there is a perception of a good price/value/quality ratio. "Proper branding has also made a place at a higher price point for labels like Cloudy Bay, which seems to be the Santa Margherita of New Zealand," Miller says. For the more premium New Zealand wines including Pinot Noir and Syrah, he says they're more likely to be represented on restaurant wine lists rather than in retail stores. "Pinot Noir, especially from Central Otago, seems to be the next category gaining recognition but higher prices can be an issue restraining growth in this category," he says.

David Strada, New Zealand Winegrowers' US marketing manager, first started working with New Zealand wines back in 1998 and has seen the growing recognition and familiarity with the wines in the US over the years. "With a twenty-fold growth since the late 1990s, the presence has certainly been increasing and we expect this steady growth will continue,"

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that New Zealand produces world-class Pinot Noir, specifically those from Central Otago." He believes demand in that category will expand as the economy continues to allow for growth in the higher tiers of wine consumption. "Our distributorship is slightly ahead of the curve, as we represent as much New Zealand Pinot Noir as we do Sauvignon Blanc, but the bulk of the volume still lies in the Sauvignon," he says.

Jim Chanteloup is the New Zealand wine buyer for K&L Wine Merchants in Redwood City, California. "For me here at K&L the New Zealand category has continued to grow in a steady, organic way that I would like to think is based partly on my desire to present a cross-section of NZ wine varietals and regions," he says, adding consumers are well aware of Marlborough Sauvignon Blanc and are getting more familiar with the Pinots. "I have definitely expanded my selection over the last few years as New Zealand started to eclipse Australian sales and we were about 18% up in 2012 versus 2011. People now ask 'where are your New Zealand wines?', though it's still dominated by Sauvignon Blanc and Pinot sales," he says.

Across in New York, Miller agrees that Sauvignon Blanc is the national identifier for New Zealand. "If you ask an average American wine drinker if he is aware of New Zealand, he or she will likely reference Sauvignon Blanc," he says, adding Sauvignon Blanc seems to be "filling a popular

David says. He adds that New Zealand wines succeed based on their quality, their distinctive style and always represent value. "New Zealand wines are damned good," he says, also pointing out that "New Zealand and France have the highest average price per case in the market".

Strada says demand for Pinot Noir continues to be strong but warns the challenge is the "staggering amount" of Pinot Noir that is for sale in the US marketplace, particularly with California coming off its largest harvest ever. Palmateer also believes the American consumer's fascination and interest in Pinot Noir continues to be strong and he sees this trend continuing for the next several years. Frei says, "We have always found value out of New Zealand in the US\$10-15 retail price range, but I think the real value lies in the US\$20-40 range." This is good news as this higher price bracket is clearly where most of New Zealand Pinot Noir sits. "New Zealand still offers a great deal of value in the international context, but people need to continually be introduced and exposed to the wineries that are really focused on quality," Frei says.

Does New Zealand have any other advantages to offer the US market, especially since it can now boast that more than 94% of New Zealand's producing vineyard area is certified by Sustainable Winegrowing New Zealand (SWNZ). Palmateer says it's important to many trade buyers, however in most cases he

doesn't think it's the prime reason why a trade buyer, (or indeed a consumer), will decide to buy or not. Frei thinks it's a selling point for a specific market segment and mentions several retailers such as Whole Foods. "The fact that New Zealand is ahead of the curve in that arena provides additional advantage for its products," he says. Chanteloup says, "I was interviewed a few years ago about 'branding' New Zealand's sustainability – I thought there would be some form of symbol to denote this." Whoops! There is actually a SWNZ logo but most producers don't seem to be using it on their labels. And while there has been a big effort in New Zealand to get to a 100% sustainability compliance, the PR and communications around the program have been somewhat neglected until just recently.

So for those keen to swim where the big fish are, here's some advice from key folks in the US trade as to how New Zealand wine producers should approach the market:

1. *Have a clear and differentiated marketing position.*

"Know what sets you apart from everyone else," says Chanteloup. Frei adds, "People want to hear a unique story coupled with seeing an exciting package design... it is the brands that differentiate themselves that seem to succeed when they are new on the scene." Frei also suggests leading with a variety other than Sauvignon Blanc. "The

competition in that category is fierce, so choosing another angle could benefit your exposure in the market." Strada's advice is, "Give distributors, retailers and sommeliers reason to sell your wine." It's all about being memorable.

2. *Constantly communicate.* Palmateer stresses the importance of building relationships through regular communication. "Part of the solution is for the winery to consistently communicate with the importer/distributor to demonstrate their commitment to that market," he says.
3. *Find the right partner.* "Don't look for large distribution. Look for someone who seems excited about what you're doing and *wants* to sell your wine," advises Chanteloup.
4. *Spend time on the ground.* Strada stresses the importance of getting to know the market and your customers – "no wine, no matter how good, sells itself." Miller agrees that marketing and brand representation on the ground is all important, especially when trying to create familiarity with varieties other than Sauvignon Blanc.
5. Be prepared! Palmateer says, "Study the nuances of the market and be prepared before you approach a buyer." ■

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A date with China.

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28 MAY

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30 MAY

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