CASE STUDY 11

ASPIRING TO GLOBAL LEADERSHIP: THE BIG FOUR AUSTRALIAN WINE COMPANIES

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The Australian wine industry has become a major player on the international stage. The industry now ranks as the world’s fourth largest exporter, selling 58% of its production offshore in the year 2003–4. Total international sales of the industry as a whole increased from 8.7 million litres in 1984–85 to 285 million litres in 1999–2000, and 581 million litres in 2003–4 (reaching a value of almost $A2.6 billion). Australian wine companies have been able to capture market share offshore on the basis of the consistent quality of their product offering, depth of product range, reasonable pricing and technological innovation.

The Australian wine industry’s major export markets in 2003–04 were the USA, UK, Canada, New Zealand and Germany. The industry’s first success was in the UK, where it has overtaken France to become the leading supplier of wine by volume. The UK has been an attractive market for Australian exporters in many ways. There is no significant domestic competition, consumers have increased their wine consumption as they shift away from beer, the full flavour of Australian wine suits local tastes, generic images of Australia are positive and psychic distance between the two countries is relatively low. However, the value of Australia’s exports to the UK was eroded in 2002–03 as a result of the so-called ‘supermarket wars’, in which supermarket retailers used their market power over producers to discount heavily.

The next major export success was the USA, where Australian wine is now ranked the industry’s number two import by volume. Australian exports to the USA increased rapidly in 1990s, despite the challenges of a complex distribution system and established local competition in the form of large-scale Californian production. While average wine consumption in the USA is only modest (12 bottles per capita per annum compared to 27 in Australia), in the 1990s it was a high-value market that responded favourably to the fruity flavour of Australian wine. However, the attractiveness of this market was eroded in 2002–03 as a result of an oversupply of Californian wine, a rising Australian dollar and the emergence of ‘extreme value’ or ‘lifestyle’ brands that captured market share from premium products. In this period the most popular Australian wine export to the USA was Yellow Tail, a low-priced brand developed especially for the US market by a relatively small family-owned producer, Casella Wines.

While many small and medium-sized companies have become committed exporters, Australian wine exports are dominated by four companies: Southcorp, Foster’s, BRL Hardy and Orlando Wyndham. These companies have gone through three phases: export growth in the 1980s, market development in the 1990s and, this decade, a transformation into fully fledged global operators. However, the transition from exporter to global contender has not always been a smooth one.

FOSTER’S (BERINGER BLASS)

Mildara Blass was the product of a merger between Wolf Blass and Mildara in 1991. Mildara Blass was then acquired by Foster’s Brewing Group in 1995. At that time Foster’s was facing a maturation of the Australian beer market so diversification into wine was seen as an important ‘growth engine’ for the company by then chief executive Ted Kunkel. The company had considered but rejected the option of acquiring foreign beer assets, believing that potential foreign markets either lacked growth or lacked stability.
In the 1990s the company began to explore the possibility of producing in offshore locations. In 1997 it announced a joint venture with a Chilean wine producer, Vina Santa Carolina. In August 2000 Foster’s raised its international involvement to a new level by acquiring California-based Beringer Wine Estates. At the time Foster’s justified the high price it paid by arguing that the acquisition would strengthen the operations of both Beringer and Mildara Blass. Beringer exported a negligible proportion of its production, so would benefit from Mildara Blass’s extensive international distribution network; at the same time, Beringer’s infrastructure was expected to assist the distribution of Mildara Blass brands in the US market. Despite these potential synergies, the first years of the merged entity have been difficult ones. Having positioned itself as a premium producer, Beringer Blass struggled against the emergence of low-priced ‘lifestyle’ brands in the USA, and was unable to dispose of the oversupply of wine produced by its Californian vineyards.

Southcorp’s wine division was formed by bringing together the Lindemans and Penfolds brands. In 2001 the company acquired Rosemount Estate, a local family-owned firm. In 2004 the company’s sales in international markets exceeded A$600 million, representing about 20% of Australia’s wine exports.

Southcorp signed a number of joint ventures in the 1990s and beyond. Together with a local partner it launched a brand of Californian wine, and it attempted to establish production in the Languedoc region of France. Its first partnership in the region foundered, so it sought a new partner in James Herrick, an Australian who had a track record in producing his own brand of Languedoc wine. In 2001 Southcorp announced a 50/50 joint venture with Californian producer Robert Mondavi.

Another strategy Southcorp pursued in this period was to buy land for the development of vineyards. In 1997 it bought land in California which it has planted with vines. The company sees advantages in sourcing grapes offshore for its major brands, as the general manager at the time explained: ‘when we have a poor vintage, as inevitably we will as an agricultural business, then we don’t want to be as dependent on just Australia and Australian climatic conditions’. The Californian site was chosen because of its similarities to the Barossa Valley, thus allowing Southcorp to transfer its existing technical expertise to the new location.

In its quest to become a global player Southcorp has so far not taken up the option of acquiring a major foreign winemaker. In 2000 then general manager Tim Park explained that ‘Southcorp was not in the business of collecting global brands, but rather in building global brands’. In its quest to become a leading global player, Southcorp is focusing on three global brands: Lindemans, Penfolds and Rosemount Estate. However, its global ambitions faltered in the period following the merger with Rosemount. A strategy of heavy discounting, particularly in the UK, contributed to a A$1 billion loss in 2003 and, critics argued, to an undermining of its key brands. In the USA Southcorp, after losing out to lower-priced ‘lifestyle’ wines, brought out its own brand in this category, called ‘Little Penguin’. CEO John Ballard has emphasised that Southcorp’s recent problems ‘have nothing to do with its products, just the way they were sold’.

BRL Hardy was formed in 1992 as a result of the merger of two wine companies, Berri Renmano and Thomas Hardy. Both companies had commenced exporting in the 1980s and BRL Hardy was able to build upon these efforts. The company expanded its distribution network, in some cases acquiring a stake in the companies that acted as its distributors.

As well as forging partnerships for its distribution activities, BRL Hardy also sought alliances for production. It negotiated a 50/50 joint venture with a Sicilian company, Casa Vinicola Calatrasa, to market a range of wines labelled
D’istinto. Under the terms of the joint venture, Casa Vinicola Calatrasi provided the grapes and the production facilities, while BRL Hardy contributed its international marketing resources. The goal of the joint venture, according to BRL Hardy Europe’s marketing manager, was to ‘launch the first global branded Italian wine’. BRL Hardy has also formed a 50/50 joint venture with the Chilean winemaker Jose Canepa to produce a new brand of wine. Jose Canepa produced the wine, with BRL Hardy providing technical and marketing resources. While its Italian joint venture gave BRL Hardy a foothold in a traditional winemaking country, its collaboration with Jose Canepa was designed to give it a share of another New World success story. Neither of these joint ventures survived in the long term, however.

In the 1990s BRL Hardy also conducted its first international acquisitions. Thomas Hardy had acquired a winery in the Languedoc-Roussillon region of France, Domaine de la Baume, in 1990. BRL Hardy’s next major international acquisition was closer to home. In 1998 it acquired a minority interest in Nobilo Wines, a New Zealand company with which it already had a distribution alliance, fully acquiring the company in 2000.

In 2001 BRL Hardy made a bid for the major US winemaker Kendall-Jackson, in line with its conviction that it needed a US acquisition or alliance in order to expand in that market. The acquisition fell through, but the following month BRL Hardy announced a 50/50 joint venture with US company Constellation Brands. In 2003 Constellation acquired BRL Hardy, becoming the world’s largest wine company in the process. BRL Hardy chief executive (now CEO of Constellation Wines), Stephan Millar, explained that the Constellation offer was attractive because it would mean stronger distribution, economies of scale and opportunities for further acquisitions.

ORLANDO WYNDHAM

The French multinational Pernod Ricard acquired the two Australian companies Orlando and Wyndham in 1989–90. While Pernod Ricard had been a major European player in the wine and liquor market, this acquisition represented the company’s first New World investment. As in the case of the other big four, the merged company began a major export push in the 1980s. Orlando Wyndham has focused on the development of a single brand, Jacob’s Creek. In 1993 Jacob’s Creek became the leading wine brand sold in the UK. In this early expansionary period Jacob’s Creek was less successful in other markets, although more recently the brand has been selling well in the USA, partly due to more extensive distribution as a result of Pernod Ricard’s acquisition of the spirits maker Seagrams in 2001.

Initially Jacob’s Creek was synonymous with chardonnay, but the company has successfully implemented a strategy of brand extensions, most recently adding a Reserve and Limited Release range. It declined to engage in heavy discounting in the UK, which led to some decline in volumes but allowed margins to be maintained.

Since the Orlando Wyndham acquisition, Pernod Ricard has added to its New World brand portfolio. It now produces wine in Argentina, Chile, South Africa and even China. It has intensified its distribution efforts in Asia, so the company now markets a range of its European and New World wines in countries that are relatively new to wine drinking. Jacob’s Creek in particular is currently heavily promoted in Japan.

CONCLUSION

The Australian wine industry has been remarkably successful in its global expansion since the 1980s, and poses a serious competitive threat to Old World producers such as France. There is little doubt that the industry will overcome the current downturn in its key foreign markets. However, some commentators argue that in the past few years the industry has received a wake-up call. As Southcorp chief executive conceded in a conference presentation in 2004, ‘Whilst Southcorp makes great wines, it is not yet a great business’. The transformation of Australian firms from wine producers to global competitors is therefore not complete.
PART C International Marketing Strategy

Questions

1. Compare and contrast the international expansion of the big four: Orlando Wyndham, Beringer Blass, Southcorp and BRL Hardy. How can you account for the similarities and differences in their internationalisation strategies?

2. Do you think learning approaches to internationalisation (see Chapter 7) explain the international expansion of the big four? Explain your answer.

3. The big four were very successful in the 1990s but have faltered in the new millennium. Are their recent problems the result of uncontrollable external events or poor internal decisions?

4. Why have the big four moved from being just exporters to using a range of entry modes, such as joint ventures and acquisitions?

5. Both Orlando Wyndham and BRL Hardy are now foreign owned. Is this the best route for Australian firms to achieve global scale?

REFERENCES

Annual reports and media releases from BRL Hardy, Foster’s, Pernod Ricard and Southcorp.


