



BRANDING AND THE ART OF WINEMAKING

A conversation with Thomas P. Burnet,
Southcorp's President, The Americas

Southcorp is Australia's largest winemaker and exporter and now the number-seven wine producer globally. As the company's President, The Americas, Thomas P. Burnet is responsible for a large portion of the company's worldwide business—a position that calls on his deep business and marketing experience.

Before joining Southcorp approximately eighteen months ago, Burnet spent twelve years at Louisville-based Brown-Forman, where he ran the Wines business for three years and, before that, the International Spirits business. Burnet also had a highly successful run at The NutraSweet Co., helping to take the fledgling sweetener company from its inception to more than \$1 billion in revenues. He was one of NutraSweet's first employees and played numerous key roles there, from CFO to leader of their international business.

Now based in beautiful Napa, California, Burnet is originally from St. Louis and, despite not having lived there recently, still holds the

St. Louis Cardinals baseball team near to his heart. Knowledge Networks recently had a chance to catch up with Burnet, getting his views on the challenges and opportunities in the global wine business, as well as his unique take on building brands.

TOM, CAN YOU TELL US ABOUT THE BUSINESS YOU INHERITED AT SOUTHCORP A YEAR AND A HALF AGO, AND WHAT GOALS YOU AND THE BOARD SET OUT TO ACHIEVE?

Our main objective is to sustain the incredible growth of Australian wine in the Americas, and to have Southcorp brands continue as the engine for that growth. We are the pioneer and the leader in this segment. Australian wines have been the highest growth segment over the last decade, increasing from less than 1 million cases in 1992 to more than 17 million cases last year. Australian wines now represent 8 percent of the U.S. table wine market and more than

25 percent of the import market, surpassing France and all other producing countries except Italy.

IT'S A REMARKABLE STORY. WHAT FACTORS HAVE SPURRED THIS GROWTH?

A few key things have led to this development: great growing conditions that have allowed Australian winemakers to make a wide variety of high-quality grapes and wines; substantial economic advantages that enable us to produce and sell a very high quality product at a great value for consumers; the benefits of great word of mouth from consumers; and, finally, taste that works for a U.S. palate.

CAN YOU TELL US MORE ABOUT HOW YOU CREATED SUCH STRONG CONSUMER WORD OF MOUTH?

The word of mouth was due primarily to great taste that fits what U.S. consumers want. Australian wines are known as “fruit forward”—which is not about sweetness, but about the onset of the fruit taste. We have excelled in Chardonnay (which of course is a very popular varietal for Americans), but also brought Shiraz here—a red varietal that has really captured the marketplace. It is hard to generalize in such matters, but the Australian wine taste profile is very approachable.

There is no doubt, once people were exposed to our wines, and had the added pleasure of buying them at reasonable prices, we had the opportunity for rapid growth. Wine is a high-involvement category; once people discover something they like, they are more apt to pass along a recommendation.

WHAT DO YOU HAVE TO DO TO TAKE THE CATEGORY AND YOUR BUSINESS TO THE NEXT LEVEL?

We have been the category driver in the U.S.; but once we established the category, other Australians have entered and done well also. No single brand can rely on that category push for any extended period of time, so we must make the transition from “Brand Australia” to the individual brands that Southcorp markets.

This push will take us much more into the classical strategies of consumer products companies, where we will have to tell our brand stories better and develop distinct brand personalities for our target buyers. The intensity of competition in our category is amazing... in the short time since I began this job, 250 new SKUs have entered the Australian section. That's more than three each week! There is obviously not enough shelf space for all these products over the long term, and the strength of the brand messages will be a key determinant of what stays on the shelf.

THE PARALLELS TO OTHER CONSUMER PRODUCTS ARE INTERESTING. WHY DON'T WINE MARKETERS PROMOTE THEIR BRANDS MORE AGGRESSIVELY AND USE MORE TRADITIONAL COMMUNICATION VEHICLES AS REGULARLY AS OTHER BEVERAGE MARKETERS?

The margins of the wine business are typically much lower than other consumer categories, which limits our ability to spend and utilize some of the traditional marketing and brand-building tools, such as television advertising.

Today, nearly all wine marketing is done at point of purchase. We believe that the typical consumer's shopping list says *wine, white or red*, and seldom has a brand choice. As such, the marketing dollars today are aimed at getting you to choose our products and brands once you have made your way to the wine aisle. These tools are very tactical and clearly need to be supplemented with other brand-building tools.

WHAT ROLE DOES AWAY-FROM-HOME CONSUMPTION PLAY IN YOUR BUSINESS?

Restaurant success as a marketing tool makes sense, yet it's a difficult channel to win in. It's very important to Southcorp if this category and its growth will be sustainable. Today Australian wines are still listed under *miscellaneous or interesting whites and reds* on many menus—we are confident that Australian wines will become a standard category on tomorrow's wine lists, but that takes hard work, great selling, and world-class wine offerings. That's where our Penfolds brand fits in, and that brand will be the centerpiece of our "on-premise" efforts.

WE SEEM TO BE COMING INTO A BETTER ECONOMIC CYCLE, WHICH I KNOW IS A RELIEF TO ALMOST EVERY TYPE OF BUSINESS. I WAS WONDERING HOW GOOD AND BAD TIMES AFFECT THE WINE BUSINESS.

The wine business is less dependent on the economic cycle than it is on "Mother Nature," as humbling as that may be. It's an agribusiness and should be understood in that context. The bountiful harvests, primarily in California over the last few years, have flooded the table wine market with an excess of good grapes and have driven pricing down and made things very competitive. It is a great time to be a consumer!

The average price of a bottle of wine in the U.S. table wine business is around \$7, but is only \$4.80 when you factor in (on an equivalence basis) box wine. There is an interesting and painful story relating to the oversupply of high-quality California grapes.

In our business, everybody knows the story about "Two-Buck Chuck." Two years ago, the California producers had excess juice, and

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they were left with the choice of starting new labels, writing the bulk wine off, or selling to bulk buyers. For the most part, they chose to sell to an entrepreneurial bulk buyer, who put a good-quality package together and sold it under the Charles Shaw label, making it available only at Trader Joe's in California. It was (and still is) sold for \$2 per bottle. This new "brand" has sold more cases at that one chain in one state than all of Southcorp U.S., which is the seventh-largest wine seller in

TO THE EXTENT OUR INDUSTRY REALLY LISTENS TO CONSUMERS, EXCITING INNOVATIONS WILL NO DOUBT CAPTURE THE NEW GROWTH OPPORTUNITIES.

the U.S. All in less than a year's time! The impact on the pricing of other California wines was devastating, and it also hurt other competitors, such as our company.

The time-honored laws of supply and demand always carry the day—and the success of Charles Shaw reminds us of the long road brand owners still have ahead of them to create premium brands with sustainable consumer loyalty.

HOW CAN YOU NAVIGATE PRICING PRESSURES LIKE THE ONES YOU JUST DESCRIBED?

I have to say it's very difficult to fight back in that environment. It is a reminder that you absolutely must be a low-cost producer, tightly managed to ride these cycles out. There is only one real way out of these types of cycles, and that is through the brand building that I mentioned earlier.

ARE THERE ANY MARKETING VEHICLES SHOWING PROMISE THESE DAYS THAT ARE NOT RELIANT ON IN-STORE TACTICS?

With our products, the best marketing tactic is to get people to taste our wine. So, we are pretty aggressive in creating opportunities for tastings in the proper settings with the right target audiences. Our sales force works

with our distributors to identify and join forces with local events that provide these types of opportunities for our products. One example was at Disney Epcot's food and wine festival.

They organize the festival by country, and we got them to include an Australian venue and had a large group of consumers exposed to our great wines; more than 100,000 consumers sampled our wines in the month-long event.

LET'S TURN FOR A MINUTE TO CONSUMER INFORMATION. WHAT IS THE STATE OF CONSUMER INSIGHT IN THE WINE BUSINESS? IS MARKET RESEARCH AN IMPORTANT TOOL IN YOUR BUSINESS?

The development of integrated, sophisticated marketing information is an area where the industry has lagged behind other consumer goods marketers. The missing link is fundamental understanding of the consumer. We track what consumers are buying and how our brands perform, but not as much time and money are spent on why consumers are doing what they are doing, and what else they need or want.

We are somewhat encumbered by tradition. Think about it—we have always remained loyal to a bottle size that is not the best for two people to share at a restaurant, or to corks as a closure. You might not be aware, but actually screw caps are a superior closure. I am not pulling your leg. In any event, to the extent our industry really

commits to listening to consumers, exciting innovations will no doubt capture the new growth opportunities.

WHAT WILL BRING ON INNOVATION AND NEW WAYS TO ATTRACT CONSUMERS AMIDST THIS TRADITION-BOUND BUSINESS?

I believe two things will change the industry. First, there are new people joining the industry from other consumer businesses who bring a different orientation. In addition, as certain innovations hit the market, they will shake up the old thinking.

An example of such a lesson comes from one of our Australian competitors, which launched a brand last year called Yellow Tail. By traditional wine industry standards, this brand did not have much of a proposition. The wine didn't have a "complex" flavor or a great pedigree, yet it was a big hit. The presentation of the product, especially the bottle and its labeling, really caught the consumers' attention and taught us all something about what is possible.

YOU WORK FOR A GLOBAL COMPANY, BUT YOU ARE AN AMERICAN BASED 7,000 MILES AWAY FROM COMPANY HEADQUARTERS. THIS KIND OF SITUATION IS NOT AS UNUSUAL AS IT ONCE WAS, BUT IT STILL MUST PRESENT UNIQUE CHALLENGES.

Being part of a global company is exciting and also has its challenges. An Australian base, first and foremost, means your product comes from far away. The significance of this situation is that it puts great pressure on forecasting and logistics. After all, if you are out of stock on something, you are going to be out a long time.

Australian-based companies that aspire to large success all have an exporter's mentality, as the home market can only support so big a business. The Americas business brings in more than 50 percent of the profits for Southcorp, so it's a big responsibility, unlike some regional management situations.

In addition, the distance and the time difference (seventeen hours between Sydney and Napa) create communications, travel, and work-life balance challenges. I work hard to surmount these challenges, and they are part of what makes this job interesting.

ON A PERSONAL FRONT, HOW ARE YOU ENJOYING LIVING IN THE BAY AREA AFTER BEING A MIDWESTERNER MOST OF YOUR LIFE?

It's been a fun change of pace for me and for my family. I got a recent reminder of what it's like to live in a California climate when one of my son's baseball teams began practice in early February. I always was dreaming of baseball at that time of year, but not outside playing it. So, now I am out coaching—and I might add that we are having a great season!