

THE ENGLISHMAN WHO MARKETS AUSTRALIA

INTERVIEW WITH PAUL HENRY

Paul Henry became general manager of market development at the Australian Wine and Brandy Corporation (AWBC) at a critical time. The industry had realised the limitations of its brand strategy, as volumes rose but value fell. The AWBC, along with the Winemakers Federation of Australia, created Directions to 2025, an update of Strategy 2025. Directions aims to produce another \$4 billion (\$3.30/€2.43 billion) in sales, which means changing the way the world sees Australian wines – which is where Paul Henry comes in. Robert Joseph asked him whether Australia can do it.

WBI: The Directions document talks about the need to exploit Australian regionality. But if Penedes in Spain and villages on the Loire finds it difficult, why should Mudgee or Langhorne Creek find it any easier?

Paul Henry: Regionality is a means to an end, rather than an end in itself. It's an inviting way to encourage the consumer 'upwards' rather than just 'sideways'. Even in our maturing markets we have done relatively little to date to promote regionality in a coordinated way. Where I think we can differentiate ourselves from previous European efforts is by doing this under a strong national collaborative platform rather than each region for itself. This does not mean that we are embarking on a campaign based on full immersion awareness and appreciation of 63 GIs (Geographic Indicators), but rather that the concept of regionally distinct wine from Australia should not be a foreign one. It is the constructive promotion of a relevant association between Australian varietal style and an Australian expression of place.

WBI: How do you react to recent reports that global warming could make Australia's warmer regions unviable for grapes?

Paul Henry: With the certain knowledge that we have all left it later than ideal to respond, and the hope that our collective hubris is not punished unduly. While we have struggled in recent years with the correct management of supply and demand, it is

now clearly less an issue of aggregate total quantities and much more about have we got the right things, planted in the right places and in the right amounts.

WBI: At present, most of Australia's wine industry is in the hands of three companies. One, Constellation, is headquartered in the US, another, Pernod Ricard, is based in France while the third, Foster's Group, is regularly cited as a takeover target for another non-Australian multinational. How healthy a position is this for any wine producing country?

Paul Henry: I suppose it keeps your national, collaborative platform honest. If there is no benefit to a strong sense of Australian positioning, it will be robustly challenged by non-national ownership. Ultimately, I think it is company culture rather than nationality that determines behaviour and attitude.

WBI: How do you respond to the suggestion that telling the entire world what your industry is planning to achieve and how it intends to do so is a somewhat unconventional business strategy?

Paul Henry: I think the previous question regarding multinational, multi-beverage ownership suggests that little is likely to remain proprietary for long. I think we have much more to gain by engaging the market with a positive statement of 'what' and 'why' we are looking to achieve, than by trying to keep figurative aces up our sleeves. In any event, it is 'how' and 'when' that ultimately determine outcomes and they remain resolutely in our hands.

WBI: Wine lovers have naturally focused their attention on Australia's recent move into cooler climate regions but surely these are the very areas that face real difficulties in selling their grapes and wines?

Paul Henry: I would agree that we need a greater understanding of what all consumers – high-involved or not – are looking for, and what they are prepared to pay. For example two definitive cool climate expressions, Sauvignon Blanc and Pinot Noir, are in far greater demand than current supply capacity. Equally, cooler climate expressions of previously warm climate favourites such as Cabernet Sauvignon and Shiraz are also on the rise. I believe that a better understanding of channel management in all of our markets will improve our ability to realise the full cool climate potential.

WBI: Directions assumes that Australia can build sales in European markets that have different cultural backgrounds to the UK. Do you really believe this confidence to be justified?



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Paul Henry: Directions doesn’t make assumptions; it makes a case for strategies based on evidential findings. In fact, I think the tone of the document is considered rather than bullish, and so I am resolutely confident that we can achieve what we are setting out to do, and more.

WBI: How concerned are you by the moves Europe is (admittedly belatedly) trying to create Australian-style, large pan-national and pan-European brands, with new designations such as Vinedos de Espana and Vignobles de France?

Paul Henry: I am mindful of new competitive developments, but remain focussed on what we can control and influence within our own category. Equally, I don’t believe that Europe has a great record in responding to required change in a coordinated and timely fashion. We should concentrate on the advantage of south east Australia, and ensure that it remains relevant and competitive.

WBI: Like New Zealand, Australia is now coming in for criticism for the “food miles” required to ship its wines to Europe, in that the transport over such a distance leaves a very large carbon footprint. How do you plan to address this issue?

Paul Henry: Geography does not have to be destiny. What this debate desperately needs is some clarity and some universally accepted measurements. We are looking at a life-cycle profile for carbon footprint that goes beyond deep-sea transportation and takes a more holistic view of what is ethically and environmentally sound. There are also other considerations like packaging alternatives, improved bulk practices, bottling in market etc. This is currently top of our agenda.

WBI: Asia is crucially important to your plans, but France and Italy and – to a lesser extent – the US could be said to have stolen a march on you in many of these countries. Do you think that’s a fair comment?

Paul Henry: I think France’s influence globally is first to be admired, and then challenged! I believe the Old World influence in Asian markets like Japan to be strong and enduring, while other markets are so embryonic that it’s still all to play for. What is certain is that strong commitment and relationships need to be built in-market from now and without delay. I am also tempted to point out that in the spirit of your previous question, perhaps with regard to Asia, our location will, for once, confer an advantage...

WBI: You need to grow in emerging markets like Russia, China and Brazil. Does the New World always have to wait for Europe to establish a wine market in countries like these before it can begin to take its share?

Paul Henry: No, I think the true new world order will be determined by pro-active relationships rather than historic alliances or category hierarchies.

WBI: Australia has successfully ridden the wave of making big, alcoholic wines that have been popular in the US (and particularly with US critics) and UK. There’s a trend towards lighter styles in those countries while traditional countries like Germany have never really embraced powerful wines. Doesn’t this put Australia at a future disadvantage?

Paul Henry: While I agree with and understand the thrust behind the above statement, it suffers the same limitation as all generalisations – it is clumsy and slow to reflect change. Personally I think the 2002 vintage was a genuine turning point for Australia, and – certain benchmark regional expressions notwithstanding – Australian wine is now much more about detail and definition than power and impact. Beyond which I think style profiles are more dictated by a desire to see balance than by alcohol level alone.

WBI: Much of Australia’s success has been built on a small number of brands. Isn’t there a danger of these cannibalising each other (as appears to have happened with Yellow Tail in Japan)?

Paul Henry: I think Australia’s success has been built by a relatively small number of companies, but not necessarily a small number of brands. I think the issues the category faces in Japan is more complex than cannibalisation, and is more squarely about delivering a trade understanding of wine as a credible beverage option with mass market appeal. Until such time, any number of brands may fight attritionally for a slice of a relatively small and finite market opportunity.

WBI: Directions is, naturally focused on Australia as a producing nation. What issues do you face with regards to future trends in global distribution?

Paul Henry: Changing retail structures; changing regulatory frameworks; changing company ownership; changing social, ethical and environmental concerns. What remains constant is that at the end of this equation is a consumer faced with making choices.

“I don’t believe that Europe has a great record in responding to required change in a coordinated and timely fashion”



WBI: You hope to achieve similar inroads in the UK in the on-trade to the ones you have made in the off trade. Surely this will be harder to achieve, given the importance of ethnic restaurants, of French sommeliers and of chains of bars that care very little about the provenance or nationality of their branded or own-label wines.

Paul Henry: Definitely slower, but not necessarily harder. My experience of French sommeliers in the UK is that they are there precisely for added exposure to new and different things. We just need to try harder and with greater focus. As for chains that care little about provenance or nationality, I see little competitive advantage for a business that appears to take a lowest common denominator approach based on price alone.

WBI: The decision by Foster’s to turn Lindemans into a multinational brand offers an interesting precedent. And, if successful, potentially a dangerous one to some of Australia’s other brands. What do you think?

Paul Henry: I have no doubt that as retail margins, excise duties and transport costs all begin to squeeze – and with relatively little elasticity in retail pricing for volume brands – we will see more of this. I guess it comes down to one over-riding concern: are you growing sales or building brands. That is, have you built a true brand position, which I think definitely includes provenance or origin, or a franchise based primarily on a recognised ease of access and offer? Whatever your point of view, it is clearly a challenge for collaborative national platforms such as Wine Australia.

WBI: When Australia built its overseas success in the 1980s and 1990s, varietal wines were still a novelty, and it was possible to “own” a style such as Chardonnay or Shiraz. Today, the sales of Hungarian Pinot Grigio and Chilean Shiraz prove that this is no longer the case...

Paul Henry: I think there are a number of New Zealand Sauvignon Blanc producers that might take issue with this! I’m afraid I don’t agree with the premise at all.

WBI: Most of Australia’s smaller producers are barely profitable. Can Australia sustain the number of brands it currently has?

Paul Henry: Brands are not the same as producers, growers, labels or wineries. But to be less pedantic, I do think that we will see a number of people exit the industry in the next 24 months.

WBI: Which competitors worry you most? The waking old world of Europe or the newer New World countries such as Argentina, Chile and Brazil?

Paul Henry: I am mindful of competition from all countries and from other beverage sectors too – imported beers, premium spirits, health drinks...

WBI: While Australia has sensibly never fought at the lowest levels of the price range it is still struggling to compete today against other countries with lower cost bases. And water pressures and the need to reduce yields will hardly make that easier.

Paul Henry: Happy to be definitive on this – Australia must find something compelling to its value equation other than price.

WBI: Directions relies on the Australian industry making some very sensible decisions for itself. Are you confident that it can?

Paul Henry: Confident. We can certainly make the right decision, but it also has to be in the right time frame. ‘Now’ is invariably the optimum time frame...

WBI: Can consumption really be grown any further in Australia?

Paul Henry: A modern and developed market is reckoned to peak at around 25 litres per capita (trust me, Denmark is an anomaly!). So we must be getting close. There is however some considerable upside to finding growth through improved frequency.

WBI: In the days of the glut, there were many calls for the government to intervene. Will Australia ever have subsidies similar to those in Europe? Similarly, is there any threat of more regulation stifling the market?

Paul Henry: The Australian wine sector has always sought to self-regulate and I do not see that changing. By nature, this is not a proscriptive society, and we have tended to rely on the more Darwinian principles of the marketplace than subsidies.

WBI: Innovation is a sensible part of the Directions mix. How much potential is there left for wine innovation today?

Paul Henry: If we take innovation in its broadest sense – ie a way of thinking as well as a technical advance, process or feature – then I think it must be the industry’s defining point of difference if we are going to continue to grow the total market opportunity. Above all, innovation in terms of communication and consumer insight will be the key to true competitive advantage. ■

This is an excerpt from a longer interview.
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