



Australian British Chamber of Commerce Business Executive Lunch

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David Dearie Presentation

Enjoy in Moderation
Restoring the balance to Australian wine

Welcome and thank you for the invitation to speak today.

It's great to be here at the Australian British Chamber of Commerce, and as a proud Scot and an equally proud Brit I am delighted to have been given the opportunity to address this group.

Now I'm only six months into my role at Foster's and only six months in Australia, but if I'd have listened to my friends and colleagues, I'd probably not be standing here in front you.

When I recently accepted the post of Managing Director for Fosters Wine Business, many friends and colleagues in the beverage industry said "David what the heck have you done?"

Don't you know the Australian wine business is done, the bubble has burst, and it's all over".

They said "surely you know that there are way too many producers, way too much planted land, too many grapes, a lake of wine, the wine style's are so stuck in the 80's and all the brands are all past their sell by date".

Australian wine is over, it's finished. Oh they said and by the way the weather sucks in Melbourne.

Well thanks for the words of encouragement, I thought. And these were my so called friends.

So let's just say I thought hard before making my decisions.

Thankfully, I didn't listen to their cautions. I thought back to when the Fosters wine portfolio was assembled and the general belief and excitement in the global wine world at the time that this was the wine portfolio to die for, it has it all, global icons like Berringer, Rosemount, Lindemans and Penfolds, plus regional gems like Coldstream Hills, Seppelt, Devils Lair, Wynns and Annie's Lane to name a few.

And when I look at the wine brands I've inherited, the wine brands I'm now fortunate enough to be the custodian for, I still firmly believe that it's without question the best wine portfolio in the world of wine.

The domestic and global opportunities are outstanding and I was being handed the opportunity to lead this amazing portfolio.

I thought to myself, thanks for the advice my friends but I'm off to Melbourne.

And following a beautiful summer, they weren't even right about the weather.

But being a canny Scot there is of course another attraction of the role. If all the global warming forecasts are true my home country will be the wine

making capital of Europe in the not to distant future so I thought I'd perfect my skills down under before heading home to stake my claim as the great chieftain of the Scottish wine industry.

That's actually a joke, I'm enjoying myself too much to even think about heading anywhere.

As for the Australian wine industry the comments from old colleagues were also off the mark.

Our Australian wine industry is not on its knees, not by a long way.

But it is suffering a crisis of confidence.

And who can blame an industry that achieved such international success, so quickly.

Growth accelerated for Australia as we took our unique brand of fruit-forward, easy to drink varietal wines to the UK and America where the locals really enjoyed our styles.

However, a decade later, we are no longer unique, our competitors have attempted to copy our wine styles and they've offered similar, but I'd argue inferior wines, at lower prices and as a result we have been losing ground in some of our key export markets, plus we've largely failed to diversify our international markets and take advantage of the

tremendous global opportunities with 80% of our exports still leaving from only 7 countries.

And even with this more challenging export environment and the growth of New Zealand Sauvignon Blanc in our own backyard we've continued planting vines and harvesting grapes as though our American and British consumers would continue to single-handedly underwrite our entire wine sector.

The result of this blinkered approach has been well documented and we all know that there is a serious over supply of wine in Australia. An over supply that will require a unified industry wide solution.

As for the global wine space, well it's estimated that there are over one million wine producers who make 3 billion cases of wine per annum or about 300 million cases too much, although that's debatable as much of this is used for industrial alcohol production.

The annual global wine consumption is around 2.7 billion cases per year. Now in wine speak a case is nine litres, or 12 standard bottles.

So 2.7 billion cases, that's a staggering 32.4 billion bottles of wine or 194 billion glasses of wine.

To put it differently, if as we believe around 50% of wine is consumed on-premise, then every day in a

bar, a pub, a club or a restaurant somewhere in the world over 260 million glasses of wine are consumed. My simple task is to ensure many of these glasses are from the Fosters portfolio of brands.

But to the present here we are in 2010.

We know we make outstanding wines, Fosters wines are 1.40 times more awarded with trophy's and medals at the important Australian Wine Show than our competitors.

We're expanding our export targets, into Asia, continental Europe, Middle East and into many of the emerging markets.

And, as of the coming vintage, at Foster's we are in supply and demand balance, which is a significant competitive advantage.

Put simply, things aren't too bad; they can always be better, but not bad.

However, every day I hear and read how tough things are for wine.

But I ask myself, how many of you in this room go to work each day in 'easy' businesses. Businesses that aren't highly competitive, with capital constraints, changing consumer tastes and difficult to manage supply chains.

To me it is just commercial reality and for one, I relish the challenge because after over twenty years in the alcohol beverages industry, you learn a few home truths.

And at the top of the list is the power of brands.

Now I get some raised eyebrows around the wine industry when I speak of brands. Surely wine is different I'm told, it's about the terroir, the appellations, the regionality, the generation of family winemakers and the vagaries of annual vintages.

And well I say yes and no to all of this.

Wine is different from many other products and there are constraints that other branded goods don't have to live with such as you get to make your product only once a year, mother nature is your business partner and you're never sure what she has in store for you.

However, in the end, when you are dealing with consumers, well known and recognisable brands are the source of long term value.

The terrior, the regionality, and the traditions are all a critical component of the branded story for wine.

We are all consumers and I suspect all of us in this room are brand lovers. Recently I overheard a conversation at my office that brings this home. Two colleagues had just visited the new Costco store at Docklands and were comparing the price of branded toilet paper, with I have to say, way too much delight and excitement, I mean it was toilet paper after all.

But it does paint the picture, if brands still have a strong and sustainable place in toilet paper, surely they're relevant in wine.

The facts are there, the most collected wine in Australia is Penfolds, according to Wine Ark recent catalogue of over 3,000,000 bottles of cellared wine in Australia and Foster's brands occupy 6 of the top ten most collected wines in Australia.

So I simply don't believe the argument that consumers don't want branded wine products.

Now it's not always a simple story, as brand stories rarely are.

Consumers decide how they buy, where they buy and what they buy and there is often a different brand or experience suitable for each individual consumption occasion.

There are a lot of branded decisions to be considered for every purchase, choice of store I

like, the location of the store, who I'm buying the wine for or sharing it with, my individual perceptions of service and value and, of course, choice of flavour and brand.

Now wine consumers are a notoriously fickle bunch, chasing trends, tastes, regions and brands.

What we have found, however, that while they might explore New Zealand Marlborough Sauvignon Blanc or a French Bordeaux, the strong brands such as Wolf Blass, Lindemans and Penfolds will draw back consumers time and again.

Brands form part of our consumer's repertoire, our consumers like to explore and discover new things but they also like the comfort of brands that constantly deliver what they want.

Authentic brands with a long history such as Lindemans and Penfolds, who have been around since the 1840s, form an important part of the consumers repertoire of loved brands.

So our challenge at Foster's is in getting the balance right we need to leverage the scale of our operations and logistics networks while preserving the integrity and ingenuity of our winemakers, the wine styles and consistency that consumers have grown to love.

It's acknowledging that we are part of a complex industry with retailers, growers, small family wineries and global outsourced wine buyers.

It's behaving rationally ourselves, in terms of planting, grape buying and wine making, to give clear expectations of what we expect of others.

It is about carefully stewarding those important brands which have been placed into our trust. A heritage and a responsibility we take very seriously.

And finally, it is about getting the enjoyment back into wine and of course performing this balancing act while providing returns for our shareholders.

We have never been more awarded as winemakers and I believe we have never made better wines. We have set about reminding consumers that while it is wonderful to explore new varietals and new regions, it's a tragedy to forget the wines we do so well here in Australia. Our Chardonnays, Cabernets, Shiraz's, Semillons and Rieslings are world leaders. And now they are better than ever.

The challenge facing both Foster's and the Australian wine industry is how do we tell the world about our great wine making history and our wine making credentials, how do we enable these consumers to sample and enjoy our wonderful wine brands.

We talk about the 100 countries where we export but when we study the facts the only conclusion I think we can reach is that, as an industry, we have failed at exporting and showcasing our outstanding wines to the worlds populations.

But I believe the future opportunities are outstanding, just look at the global per capita consumption levels, in the UK per capita are at 20 litres, for Australia its 21 litres and some of the European countries as high as 55 litres.

It's 9 litres per capita in the USA.

This equates to 300 million case of wine per year of which almost 100 million is imported.

And after living in the USA for six years I witnessed an incredible change of attitude and acceptance towards wine and I firmly believe that American consumers will continue their love affair with wine and we'll see the per capita levels continue to grow.

If the USA were ever to reach the per capita level of say the UK, then the world of wine would need to find over 300 million more case of wine to satisfy this demand for USA. That's equal to the global over supply I mentioned earlier.

And that's without even looking at the emerging markets, like Eastern Europe, Russia, and Asia

where these markets offer incredible growth opportunities.

These are very fertile grounds.

Yet we keep hearing about the troubled wine industry, the over supply, the terrible future.

But the answers are there, the demand can be generated. We simply need to go and take the opportunities but we need to be smart and develop opportunities that are sustainable long term.

In Australia we continue to subsidise over production even through we all know that some of this production could not survive without governments handouts.

We all know that even in tough times the well managed small wine companies, the well managed medium companies and the well managed large companies will all survive, therefore I truly believe that we need to let the market forces be allowed to sort out the good and not so good.

I also hear the we need to should fix brand Australia.

But I wonder just what is brand Australia?

I would argue that in many markets there is no brand Australia to fix, Australian wine really has no

clear identity therefore what we have is a tremendous opportunity to go and create our brand, to bring Australian wine to life and to generate some real clear messages.

I'm encouraging a unified approach for the industry and as the largest Australian wine company Foster's would be delighted to play an integral part in leading this initiative.

We have much to learn. Even here in our own turf, brand New Zealand is kicking our back sides.

I also look at the success in some markets of brand Chile and brand Spain in other markets.

But please let's unite and take action sooner rather than later.

Let's not stick our head in the sand and end up like brand France, ruining what might have been.

Now that I've been in Australia, all though for a very short time I believe we have a great future, we have many markets to explore; we have many consumers that we need to encourage to choose wine for more drinking occasions.

Because I believe that wine has an important part to play in educating the next generations that alcohol is much more than a drink, for most consumers, wine, when enjoyed responsibly, opens

up a whole lifetime of shared exploration and adventure.

We are in a unique place as Rosemount, Penfolds, Wolf Blass and T'Gallant. As Coldstream Hills, Beringer and Gabbiano take wine drinkers on that wonderful life long journey.

And, I believe that we will get the balance right and by doing so will grow the equity in our brands, grow our profitability and improve our returns while enjoying the wonders of the land and exceptional variety of wine.

Thanks for welcoming me today and I'd welcome any questions.