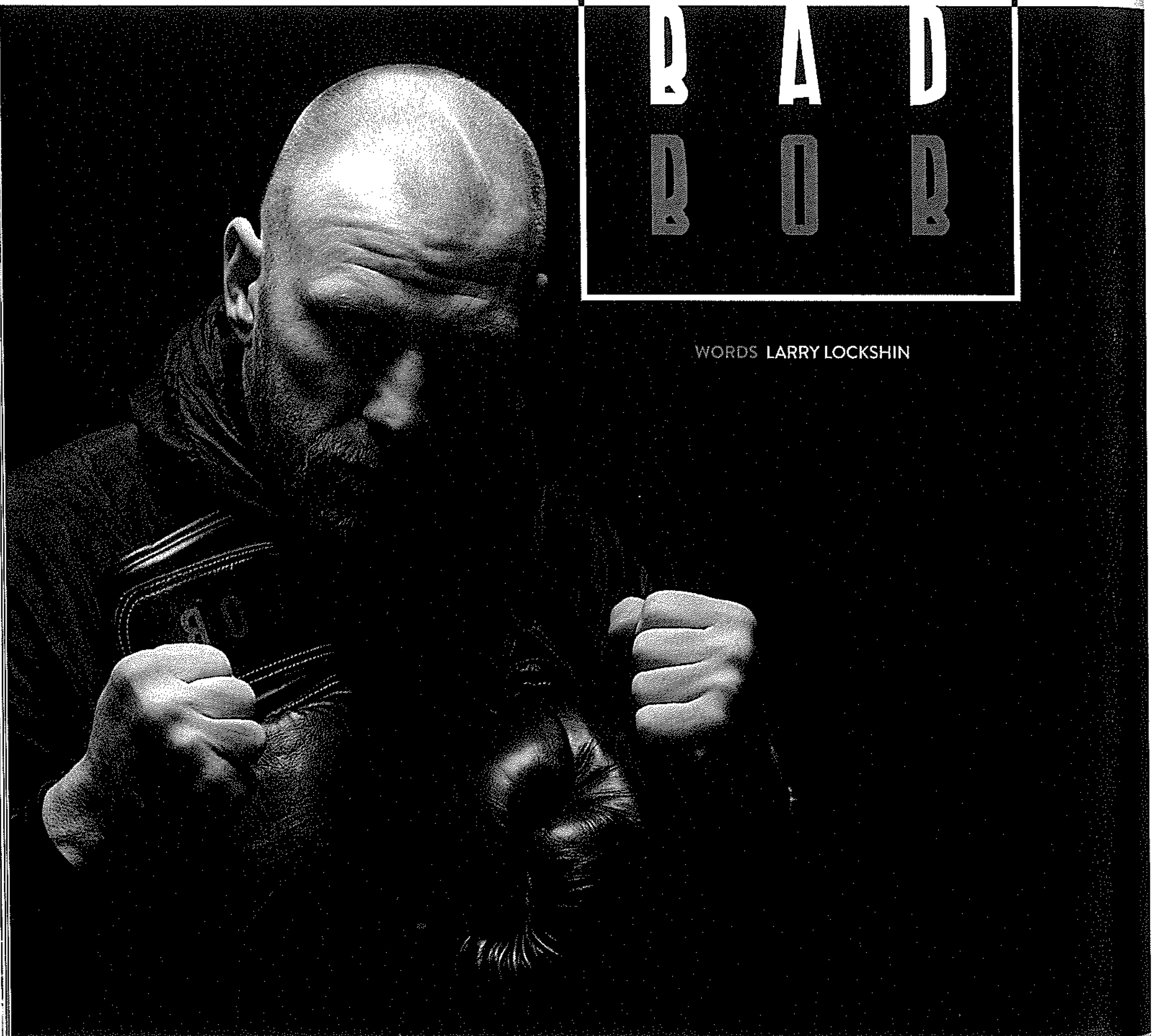
ARE PRIVATE LABELS KILLING THE WINE INDUSTRY?

BIG BAD BOB



WORDS **LARRY LOCKSHIN**

There has been a lot of press and accompanying commentary about Buyer's Own Brands (BOB) or private labels in the wine sector. The Winemakers' Federation of Australia is complaining strongly about the growing number of private labels on the shelves of major wine stores, stating these are taking market share from branded Australian wines. Their analysis shows 18 percent of retail wine sales are retailer brands.

I was involved recently in a series of emails chatting about this issue and I want to credit the discussion by Brian Miller, Richard Warland, Robert Joseph, Tyson Stelzer, Kim Brebach and Damien Wilson for providing the ideas behind this column.

First, we should understand that private labels are nothing new in the wine industry. Grapegrowers historically made their grapes into wine and sold that wine through a variety of outlets. Typically, the wines they made were either sold directly from the winery or blended and resold by negociants under the negociant's own label or sometimes bought by retailers and bottled and sold under the retailer's label. Coles launched a private label in 1929 called Embassy. These were some of the original wine brands. The industry structure we see now, with growers mainly selling to wineries and wineries creating brands, which they sell through a range of direct and indirect channels, is a very recent development in the history of wine.

It is also true that private label products in grocery and associated stores are growing. In the UK, some supermarkets sell over 50 percent of their products across all categories as private label. The number is closer to 20 percent in Australia. Some figures show that about 18 percent of wines sold at retail in Australia are various forms of BOB. Some are quite apparent, like the Vintage Cellars 'Chalkboard' series. Others do not seem to be private label, taking on brand names similar to winery brands. Huon Hooke lists 280 private labels owned by Woolworth's and Coles (http://blog.huonhooke.com/who-makes-my-wine/). Tyson Stelzer, who is working on a TV program about this, says about 100 of these 280 are available currently on store shelves. And this number does not include Aldi's private label range of about 25 wines, though these are clearly labelled as such.

I haven't had data on this recently, but several years ago we were analysing Australian wine sales by SKU (individual unit) and private labels as a sub-category were the largest single brand. This is not unusual when looking at item sales in grocery-type stores. The wine sector has many different brands, but if a retailer adds all their own private labels under one brand, then it is likely to have greater market share than the biggest industry brand. If private labels are counted individually, then the market share of each is relatively small. This is mainly due to the fact that each private label has limited distribution; it is only available in the stores that own the brand. However, if the individual BOBs are added together, they make a very large single brand.

Grocery stores like private labels because they provide higher margins, and have lower administration costs. There are no promotional or advertising expenses to acquit like there are with most winery brands. The cost of production is the only expense, which increases the gross margin to the retailer. Because wine in most New World markets has been sold by grape variety and sometimes region, most consumers use these cues along with price to make their purchasing decisions. The wine industry has taught consumers what a Barossa Shiraz or Margaret River Cabernet tastes like. So, a nice sounding name like Bowler's Run or Mount Pride along with 'Barossa Shiraz' at a low price makes an easy sale to many consumers.

Now, the real question is how damaging are private label or BOB wines to the wine industry? My view is that any damage to branded wine sales would be to those wines competing at the same price points as these BOB wines. This means basically wines priced at $7 or below in Australia. BOB wines have to be competitive in quality with wines of a slightly higher price in order to sell. Clearly, these wines are not competing with branded wines from the smaller wineries or with the higher-priced wines from the bigger wine companies. BOB wines compete directly with the lowest price branded wines, typically those made by larger wine companies. Is this good or bad for Australian wines? The loss of margin hurts bigger wine companies, which could be selling these wines under their own brands, but the overall impact on consumers is one of slightly lower prices for high demand, low cost wines. The impact on wineries selling wines above $15 is nil. BOB doesn't operate much if at all in these price points. No one is substituting a Bowler's Run Shiraz at $5 for a Mount Langi Cliff Edge Shiraz at $25+.

One other point has been made by some journalists and industry members: that consumers want transparency in the branding and labelling of their wines so the actual producer can be identified. As someone who has many years of experience studying wine consumer behaviour, I don't believe most consumers care about the company that made their wine when purchasing in these lower price tiers. Our research shows consumers spend an average of 30 to 40 seconds choosing a bottle of wine and hardly read the label. As long as the wine meets certain minimum quality standards, consumers buying at these low prices are satisfied.

Of course consumers buying more expensive wines do care more about the origin of the grapes and wines and do tend to prefer specific brands. But I don't believe that BOB or private label wines are really doing much harm to small and medium-sized wineries across our wine sector. ◆

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