STOP

WORDS LARRY LOCKSHIN

Champagne Bollinger recently announced it would no longer allow ‘crazy promotions’ by retailers in the UK. (It would still allow ‘sane’ promotions!) Because it refused to participate in deep discounting before the Christmas and New Year’s holidays, it suffered sales declines in the UK market compared to previous years. However, according to its president, its overall sales worldwide increased and covered for the losses in sales in the UK, which is one of the world’s largest markets for Champagne. Overall global revenue was up, even with a slight sales decline.

Bollinger admitted it had to participate in promotions with supermarkets in areas where these outlets were the prime source of sales. Committing to selling wine (or anything else) through large chain store retailers means your brand will be discounted, usually on a schedule negotiated with the category buyer. But in the UK, Bollinger backed out when there were double discounts added after the original negotiated discounts, like £10 off, then 25 percent more at the register. The president of Bollinger, Jérôme Philippon, admitted that 80 percent of Champagne was sold at some sort of discount in the UK market.

Is this a good idea? And if so, can or should any brand refuse to discount below a certain level? First, let’s look at what happens when a brand discounts. Research at Ehrenberg Bass Institute for Marketing Science for fast-moving consumer goods shows that discounting results in a sales increase, but these increases are rarely as large as the discount. In other words a discount of 25 percent rarely increases sales by 25 percent, which means most discounting increases sales, but results in a loss of revenue for the brand. Research also shows if the discounted brand has other SKUs on the same shelves that a proportion of the sales cannibalise these other units in the same brand. So if brand X discounts its red wine range from $10.99 to $8.99, some of those sales will come from its range that sells for $14.99 as well as from competitors.

Research also shows that people stock up when brands in their repertoire (preferred brands) are discounted, which reduces these customers’ sales when the brands are not discounted. Consumers have multiple preferred brands in each category and are happy to switch among them when one brand is on sale. We also know that most discounted brands are sold to the same people who buy the brand when it is not discounted. So, discounting does not really bring in new customers, it merely helps the retailer sell more product, usually to existing customers with the discount paid by the producer.

If you choose to sell your wine through large stores, it will be discounted. For large brands there is little choice, since in countries where large retailers dominate, 70 to 80 percent of wine is sold through these stores. But brands can, like Bollinger, refuse certain promotions, even if it does result in a loss in sales. In Bollinger’s case, overall revenue was up from the previous year due to growing sales in other markets, especially where the large retailers are not so dominant.

This prior research looked at fast-moving consumer goods. We have just recently completed a study with a Master’s student, Ava Huang, whose research is partially funded by the Australian Grape and Wine Authority looking at discounting for high-priced brands. The research cited above uses actual sales data from multiple stores, but there is little data available for high-priced brands for two reasons. First, the volume sold at high prices is not very large, and second, more of these wines are sold in smaller wine shops where the data is not collected for analysis. We used simulated shelves of real brands of Australian Shiraz priced between $50 and $100. Respondents had to have purchased a wine over $30 in the last year from a retailer (not a restaurant). Respondents were asked to ‘purchase’ wine for different occasions: to have at home, for a dinner party, or to give as a gift for a 50th birthday. Although these were simulated sales, the total choices for each wine in our experiment corresponded to the market shares of the brands we used. More people chose the brands with bigger sales (higher real world market share) than chose the brands with lower sales regardless of price.

DISCOUNTING!

It's hard to avoid discounting in this trading environment. Champagne Bollinger for one has put an end to it. Larry Lockshin says it's time Australian wineries followed their lead for long-term sustainability.

We couldn't measure actual sales, as occurs with supermarket data, so we focused on price elasticity, which is the change in sales/quantity (here, choices) divided by the change in price. It is almost always negative: sales increase as prices decrease and vice versa. It has been shown in low-priced goods that the elasticity for price increases is usually lower than that for price decreases. There is a bigger response to dropping price than to raising price. We found the same thing for high-priced wines. This would be implemented by a winery in setting prices to make sure the initial price is high enough to allow some discounting, even for high-priced wines and to not worry too much about price increases for expensive wines.

We found that the price elasticity varied by the intended usage occasion. The elasticity was highest for drinking at home and lowest for giving as a gift. This is the expected result: when faced with an important occasion, people are willing to pay more. The problem in using this for actual pricing strategy is that the same people buy wine for different occasions, and your wine is available at the shelf price for all occasions.

As expected, we found higher income people were less price sensitive. We also found that consumers who bought higher-priced wines more regularly were less price sensitive. They wanted to buy their preferred brand regardless of price (within limits). In a similar vein, the higher the initial price of the wine, the less elastic it was. Changes in price, either up or down, for the highest-priced wines in our experiment had less of an effect on sales than did changes in price for the lower-priced wines (all wines were between \$50-\$100).

It is impossible for most brands to avoid discounting, especially in supermarkets and other large retail environments, but managers of these brands should try to build revenue rather than just sales. This means continuing to build awareness for your brands and refuse crazy promotions. It also means setting a price that, when discounted, is still reasonable for the winery. Our initial results for price elasticity for wines between \$50 and \$100 should be heartening to wineries producing wines in this price range (and probably above it as well). People do react to discounts on higher-priced wines, but regular buyers react less than those who rarely buy at that price point. Our previous research shows that consumers usually move up one or two price points for gifts and special occasions. So, someone buying normally around \$10 will buy around \$20 for a special occasion and someone buying wines in the \$15-\$20 category is likely to purchase wines in the \$40-\$50 range. There are fewer people purchasing above \$50 anyway, but their response to price changes is similar to other consumers.

The real issue for Australian wineries with high-priced wines is to work together to build our reputation in major export markets, where there are more consumers buying high-priced wines. We have a large market share in this price category within Australia, but a very small share in major wine-consuming countries.

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