

## Keynote Address by Mike Veseth: Saturday 29th September 2012

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### How South Africa Can Win the Wine Wars

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Good morning, I'd like to thank the Nederburg Auction for giving me the opportunity to speak to you today and Wines of South Africa for inviting me to attend Cape Wine 2012. Thanks to all of you for coming today to support the Nederburg Auction and the cause of South African wine.

I'm here to talk about how South Africa can win the Wine Wars, so I guess I need to explain what the Wine Wars are and how South Africa fits into the action. *Wine Wars* is the title of my 2011 book. The title is short and punchy but the real business of the book is described by the long subtitle, *The Curse of the Blue Nun, the Miracle of Two Buck Chuck and the Revenge of the Terroirists*, which outlines the three elements of the book's argument. Let's take them one by one and then think about how they apply to South Africa.

#### A Tale of Curses, Miracles and Revenge

The first argument, "The Curse of the Blue Nun," is about the risks and opportunities of globalization. Blue Nun was arguably the world's first mass market wine brand. Although most people in the U.S. remember Blue Nun as that reliable but so-so German wine that they drank in the 1970s and 1980s (along with Portugal's Mateus Rosé and Italy's Riunite Lambrusco), the fact is that it initially gained international attention because of the extraordinary quality of the 1921 vintage. For a time it was the best selling imported wine in the U.S. and distributed around the world.

Globalization powered the rise of the Blue Nun brand and globalization nearly destroyed it. The pressure to fill the vast global pipeline forced the original owners of the Blue Nun brand to sacrifice quality to gain quantity. Blue Nun lost its distinctive character and became just another brand, albeit a potent one that continued to sell on that basis even as quality declined. (Blue Nun is back today, as I explain in *Wine Wars*, with new owners and a new global strategy).

People think that the "Miracle of Two Buck Chuck" is that anyone can make and sell a wine for as little as \$2 per bottle, as Fred Franzia's Bronco Wine Company does with Charles Shaw wine, which is sold exclusively at Trader Joe's stores in the United States. But that's no miracle at all. The Aldi stores in Germany actually sell the equivalent of One Buck Chuck – simple red and white wine blends that sell for about €1 per liter (roughly one USD per standard 750 ml bottle equivalent). The miracle isn't that they can sell an inexpensive wine like Two Buck Chuck, the miracle is that anyone would buy it!

Globalization has flooded U.S. supermarkets (and drug stores and even petrol stations) with an embarrassment of riches when it comes to wine. The sheer number of wines for sale is sometimes overwhelming and the many different brands, varieties and regions makes the problem even worse. You need to master a secret code (I call it the Da Vino Code in *Wine Wars*) to make any sense of the situation. The fact that wine prices vary so much from bottom shelf to top compounds the confusion.

No wonder so many U.S. consumers purchase no wine at all. They are afraid to stoop down to buy cheap wine because they fear it will be disgusting. They are afraid to reach up to buy expensive wine because they worry it won't be worth it. The Miracle of Two Buck Chuck is that Trader Joe's have given buyers the confidence they previously lacked to purchase wine. Their house brand wine strategy effectively expands the reputation of the retailer to the wine. And it works.

Brands are powerful weapons in The Confidence Game that is the U.S. wine market today, but there's a problem that I call Einstein's Law. Albert Einstein said that everything should be as simple as possible – but no simpler. By this he meant that, while simplicity is useful, there comes a point where it becomes over-simplifying and essential qualities are lost. Brands simplify in order to sell, but they can go too far. When wine becomes a choice between Bud Red and Bud White and the diversity and distinctiveness of wine is lost, we will have crossed the line.

What is to prevent this? Well, in *Wine Wars* I argue that "The Revenge of the Terroirists" will save the day. Terroirists worship (or at least honor) the idea of *terroir* – a sense of "somewhereness" (to use a term coined by Matt Kramer) that is so important to us in today's everywhere, anywhere, nowhere world. Wine, better than almost anything else, connects us to a particular time and place and is thus a fitting focus of *terroirist* zeal. Globalization has created the battlefield; the *Wine Wars* pit the forces that seek to over-simplify wine against the *terroirists* who strive to preserve its soul.

#### South Africa and the Wine Wars

Can South Africa win its Wine War in the United States market? Yes – anyone who has tasted the wonderful wines being showcased at



Mike Veseth addressing Nederburg Auction 2012

the Nederburg Auction will have no doubt about the final answer. But it won't be easy. The U.S. market is crowded, intensely competitive and structurally difficult to penetrate. It will take "boots on the ground," sustained commitment, well-conceived strategy, opportunistic tactics and a little bit of luck. If that sounds like the description of a military battle plan, you are starting to understand the Wine Wars. Let me analyze the battlefield terrain in terms of the three big forces I talk about in my book.

First is globalization – the Curse of the Blue Nun. South Africa has long experience dealing with globalization's two faces. These days for example, the global markets promise to connect Cape wine producers with new consumer markets around the world – a real plus. At the same time, however, the changing logic of the international wine trade has shifted momentum from bottled wine exports to bulk wine sales. New markets create jobs and income, but the trend towards bulk wine exports shifts the terms of trade in the opposite direction. That's how globalization rolls.

At the other extreme we have the Revenge of the Terroirists. South African winemakers are terroirists – how could they not be with such wonderful terroir all around them – and, although most consumers in the United States don't yet understand the complexity of South Africa's *terroir*, the fact of the diverse Cape wine terroir is terribly useful. More to follow on this point.

So this brings us to brands and reputation – the Miracle of Two Buck Chuck. What does Brand South Africa look like in the United States? Here are impressions I have gathered in confidential communications with U.S. wine professionals from all the supply chain links and my own personal observations.

My industry informants tell me that when winery or distributor representatives are present to provide samples and information, South African wines fly out the door, but they need that personal connection. The key, one successful distributor of South African wines told me, is for the wines to stand on their own – sparkling against sparkling, Cabernet against Cabernet and so on. Then their quality and value carry the day. Emphasize the "made in South Africa" element, he told me, and interest wanes. Why?

Although we would like Brand South Africa to be defined by the great diversity of its wine, the fact is that the space currently available for South African wines on highly competitive U.S. retail shelves and restaurant lists is very limited. South Africa has two feet to tell its story, a national wine distributor executive told me. And the story that is often told is defined not so much by the wines as by their labels.

### The Paradox of Critter Wines

If those two feet of shelf space include brands such as Sebeka, The Wolftrap, La Capra and Goats do Roam (all of which are or have been widely distributed in the U.S.), then the identity is clear. South Africa means "critter wines," a class defined by Yellow Tail and Little Penguin. Critter wines are fun and often sell very well, but the image that they project is simplicity, not complexity, even when the wines themselves are not simple at all.

The paradox of so-called critter wines is that while they can be hugely successful for the individual wineries that deploy them (think Yellow Tail in the U.S. market), they can potentially undermine a region's reputation if they are so numerous and prominent that they become the de facto collective brand. So Brand South Africa could use an upgrade in the U.S. if you want to expand beyond the self-limiting critter category. But how?

It is natural to look at the countries that have established new national brands in the U.S. market and to try to discover the secrets of their success. Australia then New Zealand and now Argentina are on the list of usual suspects. The one general factor that unites them is effective distribution.

Brand Australia was driven in part by Yellow Tail's partnership with W.J. Deustch, the family distribution firm that previously carved out the U.S. market for Beaujolais. Brand Argentina owes much of its success to the Gallo company, which opened doors for Alamos, the best selling Argentinean wine in the U.S., and Don Miguel Gascón, the number three brand. And Brand New Zealand's success was built in part on the high level of international investment in that country's wine industry, which allowed brands like Cloudy Bay to take advantage of the sophisticated distribution channels that its owners – Moët Hennesy Louis Vuitton – had already constructed. Or Brancott Estate, which rides Pernod Ricard's global wave.

In property investment they say that the three most important things are location, location, location. In the structurally complex U.S. wine market, it is distribution, distribution, distribution. Effective distribution alone will not make a wine brand, but success is very difficult without it.

Beyond this, however, Australia, New Zealand and Argentina are best seen as special cases that would be difficult (or perhaps even dangerous) to try to replicate. Brand Australia has suffered as the simple critter wine strategy has backfired. Argentina has been unable to extend the Mendoza Malbec wine brand to other varietals, although many still hope for a Torrontes surge. And New Zealand has also been frustrated in its attempt to expand the brand beyond Marlborough Sauvignon Blanc now that the *Sideways* boom in Pinot Noir sales has run its course. The Kiwis have had difficulty establishing other white varieties such as Riesling or Pinot Gris or the red wines of Hawke's Bay in the U.S. market.

Increasingly the "signature varietal" brand strategy is seen to be a one note samba rather than the first step towards broad market penetration. Although it is tempting to try to brand your excellent Pinotage or Chenin Blanc as South Africa's version of a signature wine, this seems like a risky bet in terms of the U.S. export market. It is important to simplify wine a bit – which is what a signature varietal does – so that consumers, especially new ones, can understand it. But beware of Einstein's Law. It is difficult to see how a single varietal could truly open the door to South Africa's diverse wine portfolio.

### Terroirists' Revenge

So how *will* South Africa win the Wine War for the U.S. market? Well, the good news, given what I have said, is that Brand South Africa is actually something of a clean slate for many U.S. wine consumers – especially the rising millennial generation who are open to new

wines from new places and show no particular reverence for conventional wisdom. They are refreshingly original in their thinking, bold in their actions and willing to open their pocketbooks. These new wine drinkers and others like them around the world are high value targets. How should they be approached?

Millennials are very independent. They are accustomed to writing their own narratives and they embrace products and experiences that integrate into a lifestyle experience. They aren't just buying wine, they are building an identity. Millennials are not fundamentally different from earlier generations in this regard, simply more skilled, self-empowered and more interconnected. Reaching them, which requires more emphasis on story-telling, social media and first person wine experiences, is ultimately the task of South African wineries and their U.S. distributor partners; there is also a role for Wines of South Africa in shaping perceptions.

Millennials and other "clean slate" consumers are predisposed to respond to the Terroirists's Revenge message. They are seeking wine and a story about wine that connects them to the wine, to an engaging culture, to a rich and exciting lifestyle and ultimately to each other. It's about the wine, but it's not *just* about the wine. South Africa's terroirists have a secret weapon in their beautiful land and inviting culture that gives them a critical Wine War story-telling advantage.

One possible key to this terroirist strategy – and this is my own crazy idea – is the braai. Almost no one in the U.S. knows what a braai is, but we all love the barbeque experience and this is a good starting point. Any country that makes the braai its national food culture speaks to us in a language we can understand.

But the braai, I have learned, is not merely a food culture — and this is its magic. It is an expression of generosity and hospitality. If you ask someone to share your braai, you are opening your heart and your hearth to them, whether you are preparing a gourmet meal or more humble fare. If South African wines are seen as an extension of that warmth and engagement, they might well strike a sympathetic chord among American wine enthusiasts.

And happily there are many different cultures of the braai in South Africa – there are diverse braai terroirs if you know what I mean – and each has its own story and each lends itself to a different kind and style of South African wine. Americans will love the unique experience of an Afrocentric winelands braai once they get to know it and this can be the gateway to a fuller appreciation of South African culture and lifestyle and to the diverse wines that have evolved along with them.

If you invite Americans to join with you and to celebrate your people, land and culture – to make every day National Braai Day – they will toast your success with your own wonderful wine.

And that's how South Africa can win the Wine Wars. Thank you.