

Winemaker tailors export plan to slake China's thirst

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The family company is pulling out the stops to tap the vast market

BLAIR SPEEDY
WINE

ON the edge of a long-awaited upturn in the Australian wine sector, third-generation winemaker Mitchell Taylor wanted to ensure his family-owned company was ready to make the most of the opportunities presented by China's growing thirst.

Having spent about \$15 million over the past three years to double its capacity in anticipation of surging Chinese demand, Taylors Wines also invested in intellectual capital, appointing AMP chairman Peter Mason and former chief executive of scotch whisky company William Grant & Sons, Roland van Bommel, as directors.

"We wanted to professionalise what we're doing and bringing them on gives us a lot of experience and diversity," says Taylor, chief executive and grandson of company founder Bill Taylor Sr.

"We spent a long time looking at the family structure to make sure there was no slackness or nepotism — a lot of people hear 'family business' and they interpret that as 'relaxed'," Taylor says.

"There are a lot of benefits to being a family business, from marketing to staff morale, but we've got to be very process driven and on par with the professionals, so we make the right, tough decisions," he says.

While admitting his only experience of the wine industry was as a consumer, Mason says he was brought in to provide objectivity on matters such as succession planning and dividends which might otherwise be influenced by family politics.

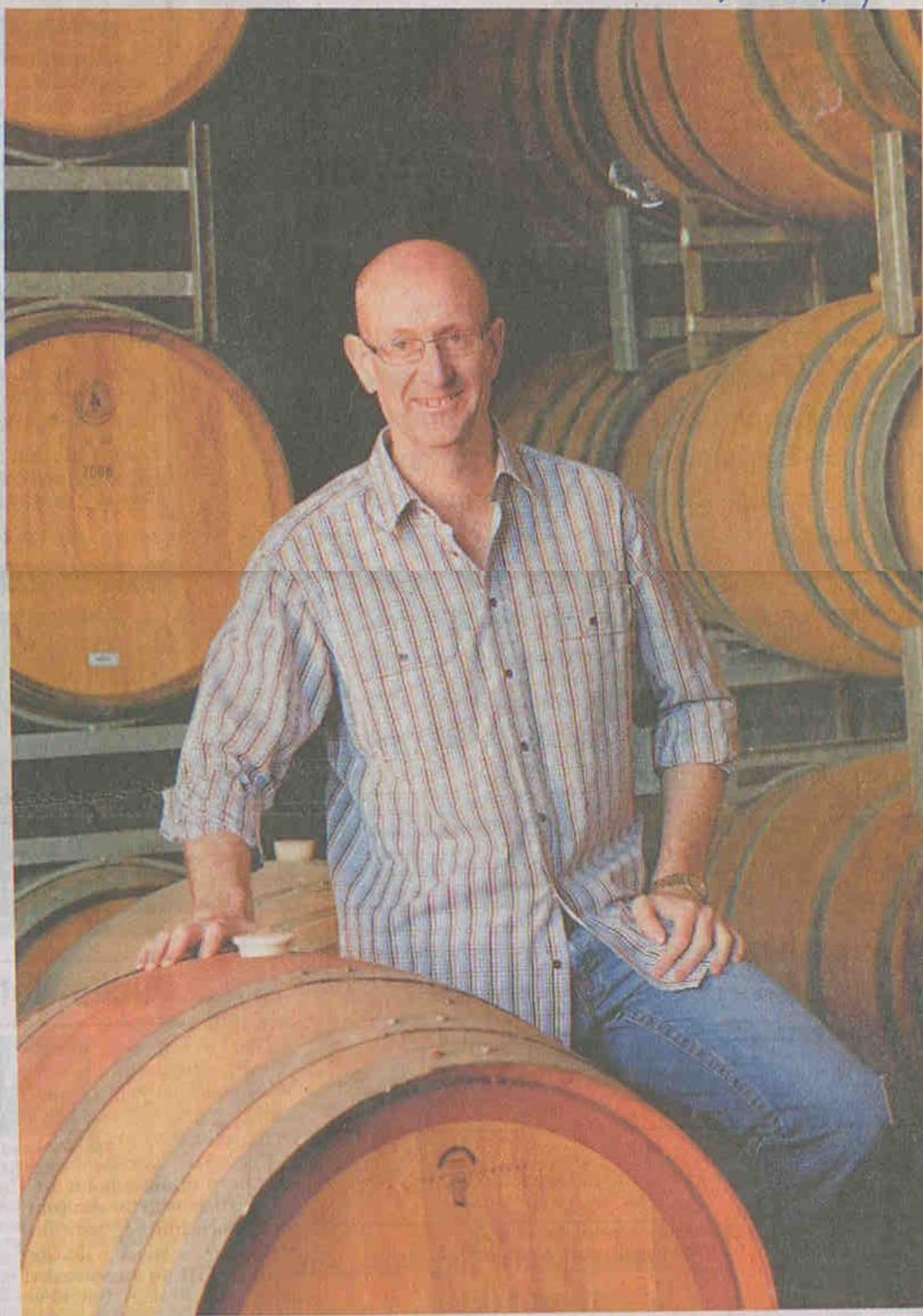
"The characteristic of family businesses generally is that as they iterate through generations there are family members that want to be involved, and people are brought into the business who are really inappropriate.

"Having some objective decision-making is valuable for the trustee nature of the business — there's a duty to those family members who are shareholders but not part of the business."

As part of this corporatisation, Taylors enacted a family constitution to govern how the company was managed and created a reporting structure to ensure all shareholders, including those not working within the company, were kept abreast of developments.

Taylor says the company has also drafted in business academic Graham Hubbard "to test our strategy and make sure we're on target, and make sure we're in the right place as the industry recovers from this oversupply phase".

Adding business acumen to the board and formal corporate struc-

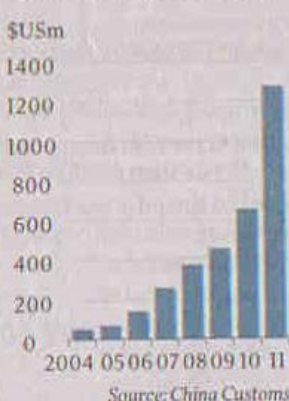


Taylors Wines chief executive Mitchell Taylor is setting the company up for the long haul

Top six wine exporters to China

	Millions of litres			% rise
	2009	2010	2011	2011
1. FRANCE	40.6	67.8	117.9	▲73.9%
2. AUSTRALIA	18.7	23.8	32.6	▲37.2%
3. SPAIN	4.6	9.5	19	▲99.6%
4. ITALY	6.3	11.2	18.9	▲68.2%
5. CHILE	6.8	10.5	17.5	▲66.4%
6. US	6.3	9.2	12.3	▲34.6%

China wine imports



What other companies say

TREASURY WINE ESTATES

"We're very excited about China... there's a growing demand for red wine, in particular."

D'ARENBERG

"We're just starting to understand China, and they're becoming more and more Western in their tastes."

PERNOD RICARD

"Jacob's Creek continues to lead in China, growing net sales 32 per cent, a figure which shows the continued opportunity which exists in this market for Australian wine."

ture to the company has also made it easier to access capital, Taylor says, with lenders taking comfort from the demonstration of corporate discipline.

"They can see we're setting the business up for the long haul," he says. This strategic shift has also seen Taylors close its US sales

office to focus on the fast-growing Asian market.

Australian wine exports to the US have been steadily declining for four years, hampered by the impact of the stronger Australian dollar on shelf prices, competition from other "new-world" producers in South America, and a

swing in consumer tastes away from the big, bold styles that drove the expansion of the market during the 1990s.

"The US was growing for us quite nicely when we opened the sales office with two staff in 2008, but it has really slowed down to quite a low level," Taylor says.

However, China, the world's fastest-growing wine market, has increased more than fourfold over the past five years, and is now Australia's third-largest wine export customer.

"We've had a good relationship with an agent there for 16 years, and we're looking at putting our own people on the ground — sales have been growing well for the past three years, particularly at the high end of our range, and about a year ago they overtook the US," Taylor says.

But Taylor says China won't solve all of the industry's problems, and he doubts it will prompt a return to the boom years of the late 1990s when it seemed anyone who could squeeze a grape was making a fortune exporting cheap plonk.

"It's not going to be a quick fix — we need to be very strategic and not just dump excess stock into that market," he says.

"I don't see a boom coming, and we don't want more excess supply coming in, because that's what happened last time with the tax-driven planting schemes and opportunistic entrants to the industry."

"A sustainable long-term industry requires a lot of brand building, it doesn't happen overnight, so I don't think we'll get another generic boom when Australian wine is the flavour of the month."

The changes at board and distribution level have also been reflected in the wine, with Taylors replanting older vineyards of traditional grapes such as chardonnay and cabernet sauvignon with more fashionable pinot gris and tempranillo.

Taylors has also expanded its repertoire with a new sparkling wine, with what Taylor says is a world-first bottle-fermented fizz sealed with an aluminium screwcap. "A large part of the market for sparkling is female, and they sometimes find opening the traditional cork to be difficult — people love the convenience and the bottle looks great, very similar to a traditional champagne bottle," he says.

"But the main reason for doing it is the quality aspect — the level of cork taint in wine isn't getting any better, and if you're going to market with a quality product you want to make sure you can deliver it."

Taylors was one of 12 wineries from South Australia's Clare Valley to switch to screwcap closures for all of their wines in 2000, a watershed that catalysed an industry shift away from cork and now sees more than 80 per cent of Australian wines sealed under screwcap.

But cognisant of the romantic notions of popping the cork on a bottle of bubbles, Taylor says the company is producing a small number of bottles with a cork seal.

"We want to test how much people attach to the 'pop', so it's a work in progress," he says.