

“St Helena Wine Estate (1978-2008) – a longitudinal case study of a medium sized Canterbury (NZ) export winery.”

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Abstract

The wine industry did not become significant in New Zealand before the 1970s. The internal New Zealand market was small and the focus of the economy was on trade in meat, dairy and wool products rather than wine. Wine production has a long history, but not in New Zealand. Wine production has also been a motor for economic growth. It became prominent after the accession of Britain to the EEC in 1973, when traditional agribusiness markets in the UK ceased to be available, and alternative agricultural products had to be found and marketed to preserve the New Zealand balance of payments.

Different forms of agribusiness have been portrayed as achieving value extraction by taking performance gaps, or identifying and seizing opportunity gaps, ‘blue ocean’ strategy being one example. That involves the development of a new product for a previously non-existent market. Thus there is no business competition because it is new. The development of [yellow tail] wines by Casella Wines of Australia exemplifies this and neatly parallels the development of St Helena Wine Estate, which has seized both opportunity and performance gaps, particularly in delivering successfully to Tesco, through its subsidiary Cottesbrook, the first New Zealand Sauvignon Blanc Bag-in-Box wine supplied to the UK market.

This paper is a case study of the production and marketing successes and travails of a medium sized New Zealand winery, which has only existed for thirty years. It highlights the influence of family; the role of export marketing; the nature of the wine supply chain from New Zealand to a UK supermarket; the role of channel coordinators in maintaining that; the increasing place of developing ‘new labels’ in marketing strategy to find new ‘blue oceans’; and the ongoing turnover of business arrangements for most wine businesses over time.

Introduction

New Zealand was a comparatively late colony only founded in 1840. It has always been dependent on its primary exports for its economic wellbeing, but it does not have the rich mineral endowment bestowed upon Australia. It is a major producer of agricultural commodities, but because its own internal market is so small, only 4 million people (2007), it depends on exporting them for its economic growth. Until Britain joined the European Economic Community in 1973 and the oil shocks of that year, it had been the main market for New Zealand lamb and dairy produce. That market was curtailed overnight, with punitive tariff barriers and quotas. New Zealand farmers were confronted with the need to sell their produce for the first time on the open world market, rather than to the imperial motherland.

That had two effects with unexpected consequences some years later for wine production in New Zealand. First, it forced New Zealand producers to become concerned about marketing as a discipline and particularly with what their consumers wanted. Secondly, indirectly through

imposing rigorous hygiene standards for New Zealand slaughter works and milk factories to be acceptable to export to the EEC, the EEC regime encouraged the development of a vibrant stainless steel manufacturing industry in New Zealand. Thus when the wine industry expanded from the late 1970s, it built its tanks from the most hygienic material available, stainless steel. Thus the latest processing technology was introduced to the New Zealand wine industry from the beginning of its modern expansion.

The wine industry has been hailed as a traditional industry, which has yet been a motor for economic growth in many countries (Smith, 2007). While production is still concentrated in the well-established producers of the Old World – France, Italy and Spain, an increasing amount of the world wine production is coming from the New World, particularly Australia, but also Chile, Argentina, South Africa and New Zealand. World trade in wine has been increasing too. The big three Old World producers have increased the value of their exports, but their relative shares of world trade have fallen. In contrast some New World producers have increased their shares dramatically (Chile, South Africa and Argentina). By 2004 Australia had overtaken Spain as the third largest exporter and the USA and Chile had overtaken Germany and Portugal as fourth and fifth biggest exporters respectively (Smith, 2007). While production in New Zealand has increased, it is still only a very small part of the oversupplied world wine trade. In 1975 exports of wine from New Zealand were only worth \$NZ 0.1 million for the year ending 30 June (fob), but by 2006 they had reached \$NZ 510.2 millions (fob) (HortResearch, 2006). Nevertheless, it is forming an increasingly significant part of New Zealand primary sector production and it is projected to reach 116 million litres worth \$NZ1.2 billion by 2011 by when it should have overtaken kiwifruit as the most important horticultural product in terms of export earnings (MAF, 2007). Rabobank's global industry specialist in wines and spirits recently drew attention to the success of New Zealand wine exports which had a "...higher export price point than any other New World producers" (See Table 1). Only France achieved a higher price point boosted by sales of champagne (Heijbroek, 2007, p.10). Wine is thus a significant export product for New Zealand, a country with a perennial problem of its overseas trade deficit.

Table 1 Export prices for New World wine producers in 2005

Country	Units: \$US per litre
Argentina	1.46
Chile	2.13
U.S.	2.17
South Africa	2.18
Australia	2.92
New Zealand	5.75

(Heijbroek, 2007, p.10)

Zalan (2005) has argued that wine is not a completely globalised commodity because, while it is subject to global mergers and international business activity, wine is still differentiated on a localised basis, which gives it market distinctiveness. Most wine producers never contemplate exporting their wine. Localisation is as important in New Zealand as anywhere else in the world.

This paper is a longitudinal case study of the first commercial winery in Canterbury, New Zealand, St Helena Wine Estate, which was founded in 1978. Canterbury is south of the main wine production area in Marlborough, and enjoys a slightly cooler climate, but it has specific *terroirs*, especially around Waipara, which produce significant Rieslings and Pinot Noirs, the equal of anything Marlborough produces (Tipples, 2002a). St Helena does not enjoy the best *terroirs* of Waipara but still continues in business as a wine producer and exporter, selling much of its product on the opposite side of the world in the UK, Europe and the USA. How this business developed and changed to cope with changing production circumstances is reported in an attempt to find out what has kept the business afloat in a world oversupplied with wine, when many of St Helena's supply chains are some of the longest in the world. The messages conveyed by this case study may help other wine producers to cope with market vicissitudes. The study was pushed on by academic curiosity into what had helped this business to keep going.

Agribusiness and the wine sector – the possibility of blue oceans

The international agribusiness environment has been characterised by falling relative prices, the free worldwide movement of capital, the ability to move technology quickly from one area to another and increasing global competition. Ongoing value extraction has depended on not only continued innovation and good supply chain management, but also marketing excellence (Gow, 2006). That value has been secured usually in one of three ways – by product leadership, by operational excellence or by customer intimacy. Product leadership describes endeavours such as research and development or brand promotion. Operational excellence features optimal processes and high efficiency leading to cheap prices and convenience, whereas customer intimacy relates to an understanding of customer needs and finding solutions especially suited to the individual customer wants. To be successful companies tend to excel in one of these value disciplines (Gow, 2006). Further, value can also be generated by exploiting performance gaps and opportunity gaps (Prahalad, 1993, quoted in Gow, Oliver and Gow, 2002). Performance gaps are typically treated by improved production and marketing systems and greater efficiencies such as improved supply chain management of agribusiness supply chains. On the other hand opportunity gaps are concerned with seizing chances for growth from new business, new market developments, or changes of strategic direction. 'Blue Ocean' strategy is an example of this. According to Kim and Mauborgne (2005a; 2005b) Casella Wines, the Australian winery which developed the very successful [yellow tail] brand of wine, have created a 'Blue Ocean', which is Kim and Mauborgne's metaphor for uncontested market space. It largely frees a producer from their competition. In their opinion, backed with extensive research and a database covering thirty industries going back over 100 years:

“Value innovation is the cornerstone of blue-ocean strategy. We call it value innovation because instead of focusing on beating the competition in existing market space, you focus on getting out of existing market boundaries by creating a leap in value for your buyers and your company which leaves the competition behind.”
(Kim and Mauborgne, 2005b, p.22)

By strategic moves Kim and Mauborgne mean “...the set of managerial actions and decisions in making a major market-creating business offering” (*Ibid.*, p.23). Casella wines had made such moves described as 'Sailing into the blue ocean' (Kim and Mauborgne, 2005a).

That is one example of empirical research on an agribusiness chain which has been reported and used as a model, but there is a lack of other such case studies (Lindgreen, Hingley and

Trienekens, 2006). Besides, there has been little reported about the extended supply chains servicing New Zealand agribusiness, although those supply chains are some of the longest in the world and are vital for New Zealand's continued economic wellbeing (Patterson, 2005). While there have been some studies of wine agribusiness chains from New Zealand, which are discussed below, the problems of managing such chains need to be set in their full context.

Since 2000 some studies in the food and agriculture industries have begun to explore the empirical details of relationship marketing, seeking to take advantage of customer intimacy. In such relationship marketing a seller has had to develop a unique offer to meet a specific customer need (Hingley and Lindgreen, 2002). How managers have understood and reacted to relationship marketing and how it fitted into the general marketing landscape, especially marketing activities for building relationships, was an early focus of Hingley and Lindgreen (2002). Some of their case studies related to New Zealand wine businesses. The latter expressed concerns not to become too dependent on a single market or a big retailer; but on matching with similar sized importers of their wines and reaching mutual trading agreements (Hingley and Lindgreen, 2002). New Zealand vineyards often required importers to take only their wines of a specific type from New Zealand in an exclusive deal. A relational approach was also facilitated by mutual trust and "...a good workable social context' (Hingley and Lindgreen, 2002, p. 816). While some winegrowers produced a standard range of wines, others were attempting to customize their wines, such as label design for Tesco (Hingley and Lindgreen, 2002, p. 819). Good inter-organizational communications were increasingly employed as a strategy, whether through, newsletters, their own websites, through meetings between winery and importer at various levels, or international press coverage (*ibid*).

In contrast, Beverland and Lindgreen (2004) looked at the evolving patterns of relationships over time among New Zealand wineries, importers, retailers and customers. Their study of the New Zealand wine industry is one of the few which has attempted to track the evolutions of relationships in a longitudinal manner. Further, they advocated replicating their research across a broader range of industries over time, by longitudinal case studies of single firms and an historical analysis of marketing practice within industries. This study unintentionally replicates their research in some ways with another historical study of marketing and relationships within a single firm and supply chain in the New Zealand wine industry. It was begun and initially reported (Tipples, 2006) before Beverland and Lindgreen's work was discovered, but provides independent validation of it.

Beverland and Lindgreen found evidence supporting the position of Achrol and Etzel (2003) that emphasized the value of relationships in growing markets and de-emphasized them in stable markets. In growing markets firms did form relationships focused on short-term problem based needs:

"...in growth markets the need to form relationships may be more paramount due to lack of such relationships, whilst in mature markets, firms may place less emphasis on relationship goals, as they are searching for new opportunities" (Beverland and Lindgreen, 2004, p.852).

Further they note that firms routinely create, build and leave relationships in reaction to changing strategic needs and the business environment (*ibid.*). They also found that their evidence supported the position of Joshi and Campbell (2003) that firms who establish relationships early can achieve substantial adaptation benefits by leveraging their mutual activities to the benefit of

both parties. In terms of managerial implications, they concluded that the strategic form that firms take is a response to the complex nature of the context in which they find themselves. For example:

“...firms often gained significant advantages by forming and/or intensifying their relationships early and, assuming continued investment in relationships (complemented by constant market contact), these firms could enjoy increasing returns and create tacit advantages that would be difficult for competitors to surmount”. (Beverland and Lindgreen, 2004, p. 853)

Patterson (2005) has expanded the discourse by looking at the New Zealand meat industry, which historically has depended on the same long supply chain to the UK. As a large and dynamic industry, it has had players regularly entering and exiting it. Such entrepreneurs tend to focus on a specific niche rather than compete with large and established companies in the generic or commodity market place. They tailor their product offering to what the market niche, which they have identified, demands. Patterson highlighted the role of channel coordinators in achieving the delivery of a consistent product offering tailored to the requirements of the market niche, but found that despite its importance there was very little research on the place and performance of this particular role. So he set out to find out how meat industry supply chains were structured; why a particular structure was used by a niche chain; and what was the role of the channel coordinator in such chains. In his case studies he found all the supply chains studied had different structures, but that the key to their structures was the role played by the channel coordinator, who brings all the influencing factors together. They manage the chains to see that the requirements of the target niche market are met and flow through to the consumers. So the product offering was adapted to suit them. Channel coordinators also controlled ‘their’ brand and the consistency of the product marketed under it. In so doing they communicated with most or all of the actors in the chain to retain their control and ensure full and regular information flows, particularly to head off any problems at their outset, to provide feedback, and for fine tuning the product offering. To motivate other actors in the chain, the channel coordinators used incentives to ensure that what was required was done. Patterson highlights their focus:

“...the channel coordinator who targets a niche market will focus specifically on a market segment, customizing his product to suit the demands of his target niche. In so doing, he differentiates it from competing products and builds an in-depth understanding of that market niche.” (Patterson, 2005, p. 170)

The case studies showed that without the channel coordinators there would have been no chains and no ‘niche blue oceans’. They became channel coordinators because they identified a potentially profitable market niche and set up the supply chain from nothing to capture that (Paterson, 2005, p. 172). The possibility and value of contrasting supply chains and channel coordinators marketing different products (e.g. fruit, vegetables, non agricultural produce) to different niche markets was also identified (*ibid.*, p. 174). The case study which follows was set up entirely independently of the research described in the previous paragraphs. However, it provides a lot of further evidence supporting the research described and corroborating much of that research.

Methodology

The story of St Helena Wine Estate’s business development is based primarily on semi-structured interviews with Robin Mundy, its owner, and his business colleague, Brent Rawstron, owner of Rossendale Winery. Each was interviewed several times, with subsequent

clarifications, where necessary, conducted by telephone and email. Other personnel and business partners were interviewed by telephone. Interviews were taped and notes and transcripts made of these interviews and other meetings which occurred over the period 1998 to 2008. The case study was founded on long term knowledge of the New Zealand and Canterbury wine industries. The author is historian of the latter (Tipples, 2002a and b). A strategy of triangulation was used throughout for data testing to give maximum reliability and content validity of the case study. Different information sources and methods were cross-checked to give coherent and supported results (Denzin, 1978; Hill and Capper, 1999; Sale, 2003). Multiple sources were used to cope with the unreliability of the human memory: previous experiences, observations, research notes, interview notes and transcripts, world-wide-web materials, and whatever documents were available such as books, and academic and media articles. Events only mentioned once were considered to be a possibility; those mentioned twice a likelihood; and those mentioned three or more times a definite probability. Such a strategy has become for the author a way of conducting research dependent on a substantial element of oral history. The resulting paper has been referred back to Robin Mundy and Brent Rawstron to confirm that their views and how they frame the problems of wine production and marketing have been captured accurately. Their openness and generous assistance is gratefully acknowledged.

St Helena Wine Estate (Canterbury, New Zealand)

While the first planting of grapes in New Zealand was as early as 1814, before the 1970s there had been little thought of wine production in Canterbury, with the exception of some plantings on Banks Peninsula. They had been carried out by a small group of French settlers in 1840. However, by the twentieth century these had died out, although they had showed early promise. There was no entrepreneurial drive or capital among those early settlers, or government incentives, to foster the development of the district (Tipples, 2002a), which was "...splendidly suited to the cultivation of the vine" (Bragato, 1895, p.6). From then until the 1970s only one or two small plantings of grapes in Canterbury had been attempted but unsuccessfully (Tipples, 2002a).

It was not until the early 1970s that serious thought was given to the role cool climate varieties might play in grape and wine production in Canterbury. A suggestion was made that Canterbury could have microclimates well suited to varieties such as Riesling. Conventional wisdom was that grapes should not be grown in New Zealand's South Island, because it was too cold. In 1973 twenty grape varieties were planted at Lincoln. After three years, grapes were harvested and found to have sugar-acid levels better than expected and wine was made. This showed promise and the Lincoln vineyard was extended to sixty cultivars (Tipples, 2002a).

Watching from the wings were people interested in the commercial application of these trials. Among them were the Mundy brothers, market gardeners of Coutts Island. Their potato production enterprise had been severely affected by potato cyst nematode and they were seeking alternative crops. While visiting Lincoln, looking at blackcurrant production, they noticed Lincoln's grapes and heard about the wine production trials. They decided to try grape production. St Helena vineyard was established in 1978, with cuttings of the cool climate varieties identified as best suited to the Coutts Island environment. St Helena became the first winery in New Zealand to be financed by a Rural Bank loan and was opened by the Prime Minister in 1981. Robin Mundy has explained:

“From 1964 to 1979 my brother Norman and I grew potatoes and other vegetables on our property at Coutts Island, but the potato cyst nematode knocked out our operation and we had to seek alternative crops. We contemplated kiwifruit, blueberries, peppermint and blackcurrants, then while at Lincoln College looking at blackcurrants, we noticed they were growing grapes and making wine....

Thanks to the experimental work done by Lincoln we were able to obtain cuttings of the varieties best suited to our area. In 1978 the first 10 acres (4 ha) of grapes were planted and by 1981 we were growing 30 acres (12 ha) and approaching the first harvest...Danny Schuster, Lincoln’s winemaker was employed and the winery was named St Helena. The small 1981 vintage sold out in one day!” (Collins, 1991)

In 1983 St Helena won the first South Island gold medal at the national Air New Zealand Wine competition for its 1982 Pinot Noir. A plaque was presented to St Helena to commemorate this historic achievement. It really brought the attention of the country to Canterbury as a wine producing area, which led to further major viticultural developments (Tipples, 2007). After that initial success St Helena had no problem selling their wine on the local market, but they had problems maintaining supplies to New Zealand customers over a whole year from their limited production base.

The role of family

St Helena had become the wine label for a traditional family farming business, M J Mundy Ltd. formed in 1956. Robin’s father had a philosophy that they should just be ‘doing their own grapes’ and not be buying in grapes from other producers. The brothers did not become directors of the company until 1989. Differences developed between them. Norman was responsible for the viticultural side of the operation and thought all the money should be spent in the vineyard and in winemaking. Robin had taken over the sales side of the business and was frustrated because he had no resources to develop the St Helena brand. In 1988 frost destroyed the grape crop, but they still had the other parts of their farming operation, especially the black currants they had also diversified into after the nematode problem.

In 1992 Robin obtained a divorce from his first wife. That necessitated a valuation of the company which showed there was not much of value in the business, but a lot of debt for the family owned farm. The payout was comparatively small because of the debt, but the business situation was getting worse not better after deduction of the brothers’ meagre salaries. Within 3-4 years their bank would probably sell their farm. So the farm was put up for sale, but did not sell. At this time there was an on-going rural recession in New Zealand following the removal of all farm subsidies in 1984 (Cloke, 1989). Moreover, it was not a successful business anyway. Two years of family discord followed. By then Robin had a new female partner, who had some money, so they decided to buy his brother out. They had to wait for an ideal opportunity, which arose when his brother, who was responsible for frost fighting, chose to go fishing one weekend when frost wiped the grapes out again. Wine stocks were very low and the accountants reckoned that something had to happen. The farm was divided, which was facilitated by the death at that time (1994) of their father. Norman received 4 ha, which had been used by their father for growing calla lilies and had been quite profitable, while Robin received the grapes and winery.

Cellars of Canterbury and Marlborough

At that time Robin and his wife started buying in wine from Marlborough and experimenting with new labels. They could see that buying-in grapes was probably their financial solution in years when they had a shortfall in production. Differentiating their wine by selling it under a new label was not a problem in New Zealand as there were no regulations equivalent to the French AOC 'geographical indications' legislation tying labels to wines produced from particular land areas. Then they were approached and asked to be part of a cooperative winemaking and selling company, which became known as *Cellars of Canterbury*. Cellars of Canterbury was a cooperative company set up to reduce a performance gap in marketing by achieving economies of scale and reduced shared marketing expenses between five medium sized Canterbury wineries (Giesen Wine Estate, St Helena Wine Estate, Sherwood Estate Wines, Rossendale Winery and Sandihurst Wines). However, to become successful exporters the directors believed they needed a supply of Sauvignon Blanc grapes, which was not then available in Canterbury. Sauvignon Blanc grapes were essential to make New Zealand's flagship Sauvignon Blanc wine, a vital part of any exporter's offering. Cellars of Marlborough, another cooperative company, was formed in 1998 out of this attempt to gain traction on the opportunity gap from expanding the field of operation from the domestic New Zealand wine market to the world wine market. Hence the acquisition of Marlborough vineyards for Sauvignon Blanc supply, which became Cellars of Marlborough. However, over time extensive sales were not achieved and the cooperative structure could not stand the pressures of five entrepreneurs wanting to go in different individual strategic directions. Management of those differences became too inefficient. Eventually Cellars of Marlborough ceased trading in 2004. The five founding parties made substantial capital gains from increased Marlborough viticultural land values (Gow, Oliver and Gow, 2002; Tipples, 2008a).

Cottesbrook Wine Company Limited

From those ashes, like the proverbial phoenix, arose a partnership between two of the members, Brent Rawstron and Robin Mundy, who formed Cottesbrook Wines in 2002. Cottesbrook Wines were to seize the opportunity gap of access to the international market place by specifically placing their wines with Tesco, the largest British supermarket chain (Davey, 2006), and one of the most successful exponents of customer relationship management (Humby, Hunt and Phillips, 2007). According to Stone (2005), Tesco has forged much of its marketing success on its customer orientation. Part of that success was built on "...finding suppliers who share your vision and can deliver what you want quickly and cost effectively..."(Stone, 2005, p.2). The two unequal companies fitted together well because they had similar marketing aims – keeping the customer happy and loyal (Turner and Wilson, 2006; Rawstron, 2006).

The supply chain which resulted linked Cottesbrook Wines in a direct selling relationship with Tesco supermarkets through Thierry's Wine Services of Romsey, Hampshire (Tipples, 2006 and 2008a). The relationship from 2004 was successful and more wine, of different varieties, was successively exported to Tesco after the original bargain priced shipments of mid-priced quality Sauvignon Blanc. However, the exclusive nature of the Tesco arrangement created a sense of insecurity and vulnerability in the Mundys, because "...all their eggs were in one basket". Consequently setting up another vehicle for exporting their wine became a serious concern. Robin already had what he believed was a solution in his hands as a result of his previous experiences of different brands.

When a wine label was being considered for the Tesco venture Mundy had suggested 'Flying Kiwi' as an idea, only to have it rejected by his partners and associates. However, at the Romeo Bragato wine conference in Christchurch (2002) he had had a fortuitous meeting with a representative of Harkness Walker Design from Australia, who had already designed the very successful [yellow tail] label. Business was slow and Robin was asked if he had ever had any ideas for labels, because Harkness' representative could develop an idea in his 'idle' time at the conference. 'Flying Kiwi' was suggested, by means of an aeroplane or some such as the Kiwi is a flightless bird. Three different Flying Kiwi designs were prepared aimed at the younger, thrill seeking, adventure market (ages 25-45) for whom there were no specific wines. One showed the Flying Kiwi parapenting (Sauvignon Blanc), the second hand gliding (Chardonnay) and the third carriage by hot air balloon (Pinot Noir). Further appeal to the 'Green' and conservation lobbies was made by donating 1% of sales to the Kiwi Conservation Trust (www.nzconservationtrust.org.nz) at nearby Willowbank Wildlife Park for its Kiwi breeding programme. When the design exercise was completed Harkness Walker Design attempted, unsuccessfully, to buy the design from St Helena Wine Estate. Their own staff had voted it potentially more successful than [yellow tail]. They were advised it was not for sale but for exporting Kiwi wine!

Subsequently 'Flying Kiwi' was registered by St Helena as a trade mark in Australia, Japan, the USA, the UK, and all EU countries. Much later another Flying Kiwi wine label was discovered, but fortunately that was only registered for New Zealand, while St Helena Wine Estate's *Flying Kiwi Wine* was only registered for overseas. The word Kiwi was also registered by a French company, who had registered *Kiwi Cuvée*. Initially they opposed European sales but when they wanted access to the USA, for which St Helena had registration, did a deal which allowed them access to the USA, while St Helena had access to Europe.

Flying Kiwi Wine Company

The *Flying Kiwi Wine Company* was established in 2006 by the Mundys to take advantage of this new brand. The winemaker for the new company was Alan McCorkindale, who was also the consultant winemaker for *Cottesbrook Wines*. Alan had an international reputation from over 20 years international winemaking experience, including time in Australia, France (Burgundy, Alsace) and Germany. During that time he won many awards and gold medals. Alan has continued to promote Canterbury and Marlborough as fine wine producing areas and has said:

“The Canterbury climate and the mix of grape varieties grown at St Helena have parallels with Northern Europe vineyards of Alsace and Burgundy, but with distinct regional Canterbury qualities” (FortyFour Degrees, 2008)

The record of the *Flying Kiwi Wine Company* is mixed. With Alan McCorkindale as winemaker they already had the advantage of his status as a winemaker. International marketing was not a simple exercise, but one full of hazards. Some ventures have gone well and others not at all. Initial enthusiasm from two potential Japanese importers led to careful preparation of marketing materials translated into Japanese but did not yield any sales. Dominique Vrigneau of Thierry's Wine Services, who had helped set up the relationship between Cottesbrook and Tesco, saw the label while visiting for Cottesbrook's sales to Tesco and wanted the chance to find UK agents. This was reluctantly accepted. A conflict with their agency for Tesco was perceived as being possibly problematic. Subsequently an article appeared in *The Grocer* (22 July 2006) announcing that Thierrys had added the *Flying Kiwi* brand, which had been especially developed

for the UK and US markets to its portfolio. There were the three wines with Sauvignon Blanc and Chardonnay from Marlborough and a Canterbury Pinot Noir. The former were for sale at £7.99 and the latter at £8.99, somewhat above the average price paid for a bottle of New Zealand wine at £5.97 and the overall retail average for the UK of £3.79 (Anon., 2006). However, Thierrys could not deliver a single sales outlet for the UK as the Mundys wanted. Further, the US distributor failed to pay for his wine and the deal was subject to an insurance claim – a precaution which St Helena Wine Estate had learnt from their very first export to British Airways, when their agent was put into liquidation and the costs of liquidation matched the value of the unsold stock involved.

The most successful deals to date have been arranged with importers on the continent of Europe, particularly in the Netherlands, Germany and Scandinavian countries. None of these have the same level of New Zealand competition as in the UK and USA as purchasers of New Zealand wine. The major coup in Europe to date is an arrangement with FORTYFOUR DEGREES, which works as an agent alongside the Makro Group of 16 supermarkets. In Germany their agent thought the *Flying Kiwi* idea was brilliant but the Aldi supermarket chain, interested in a 16,000 case order, found it too trivial. Consequently St Helena developed another label *River Lane* to keep the deal afloat, but it took two months of serious effort to find a mutually acceptable label which had not already been registered. By shifting some of their focus from the UK to Northern Europe, Flying Kiwi are attempting to create new market space by meeting specific customer needs, something of a ‘blue sea’ if not a ‘blue ocean’.

Issues of exchange rates

Registration of brands has turned out to be a major issue, but one which is nevertheless critical to the financial success of a particular line. Another has been the level of the New Zealand exchange rate. For most of the life of St Helena Wine Estate this has not been a major issue, but the sustained strength of the New Zealand dollar in 2007 has caused unexpected problems for St Helena as well as other New Zealand wineries. For example, over the period from mid 2006 to early 2008 the value of the NZ dollar against the pound has gone up from a low of approximately 0.28 to 0.40. Sales agreed in foreign currencies have been worth progressively less in New Zealand dollars when converted by St Helena, and they like many other New Zealand exporters have been progressively suffering. Wineries have lacked the ability to take their business off-shore as many exporting NZ manufacturers have done, being land based enterprises.

This came to a head when the recently launched Tesco USA advised its suppliers of their intention to hold their prices for their retail customers, which was a consequence of the on-going inter-supermarket competition between Tesco and Walmart. Thus suppliers had to absorb increasing costs of inputs, taxes and adverse exchange rates. There were no exceptions for New Zealand exporters, who have to receive the same price in US dollars, which is worth substantially less in NZ dollars. This strength has nothing to do with the intrinsic value of the NZ dollar but with the weakness of the US dollar and high internal New Zealand interest rates from fighting price inflation. Cottesbrook had a supply contract for Tesco USA but gave it up as they refused to alter their prices for 12 months, when the \$US was continuing to weaken against the \$NZ and the market price of bulk wine in New Zealand was continuing to increase. The latter increases had resulted from the increased price of grapes and juice in New Zealand after two years of smaller harvests from poor weather, particularly spring frosts.

Other Problems with Tesco

The very positive relationship that Cottesbrook had enjoyed with Thierry's Wine Services and Tesco in the UK was undone in 2007 by internal changes of policy within Tesco, and were entirely outside of Cottesbrook's control. In the middle of 2007 Tesco had a major brand review. A decision was taken to expand the New Zealand category substantially with wines at a higher price point. However, this was not revealed to Cottesbrook or to Thierry's. Unilaterally the Cottesbrook distribution was reduced from over 500 stores to about 60 and the Sauvignon Blanc Bag-in-Box programme (a previous Cottesbrook 'blue ocean') was stopped without telling anybody (see Tipples, 2008a). The decision was apparently based on Thierry's not making a proposal at the category review (Rawstron, 2008). This failure may be explained by another complication, the accidental death of Thierry Cabanne (Thierry's, 2007). Then both Thierry's and Cottesbrook approached Jason Godley, the director of Tesco in charge of wine. A good relationship had been established with him when he had visited New Zealand and was entertained by Cottesbrook. As a consequence Cottesbrook remained in Tesco, but with a much reduced presence until the next category review. Subsequently Thierry's have worked hard to restore the relationship with Cottesbrook, demonstrating how seriously they want to get the relationship with Tesco going again. Brent Rawstron observed that he had never seen such behaviour by a UK agent before (Rawstron, 2008).

Au revoir, Cottesbrook

However, all was not well at Cottesbrook and a strategic review became necessary. Robin Mundy had lost his confidence in working with Thierry's and Tesco. Volumes of wine traded were going to be reduced. Mundy and Rawstron were confronted by different problems too. Mundy had sold his 20 hectare block of Sauvignon Blanc vines in Marlborough, when he had been made a very good offer in 2006. Then he obtained his supplies of Sauvignon Blanc from contract growers. Rawstron had kept his Marlborough vineyards and thus had his own supply of Sauvignon Blanc grapes. Consequently Rawstron was prepared to subsidize his previous marketing investments from his vineyard operations, while Mundy and St Helena had to pay the going contract rate for their grape supplies and thus were caught by the fixed supermarket selling price and rising exchange rate problem. Further, it became apparent that there was a performance gap with the Cottesbrook office and administrator. Both enterprises, St Helena and Cottesbrook, were already making all the arrangements necessary for making wine and marketing it. Why was the other office necessary? So the decision was made to save the \$50,000 it was costing and put the work back into the respective company offices. It was also decided to divide the Cottesbrook enterprise, with Robin Mundy taking the Conway Hills and Fauna brands and Brent Rawstron retaining the Cottesbrook brand worldwide. The relationship with Thierry's and Tesco is set to continue and will hopefully increase again following a March 2008 category review, but with no Mundy input

Giving up the need to supply Tesco, when grapes have been in short supply, has had the advantage of making supply of other contracts easier. It also goes to show that the Mundys were right to be concerned about total dependence on Tesco. However, it has also meant not pushing *Flying Kiwi Wines* too hard until supplies are more readily available. In 2008 at least 550 tones of grapes have been crushed and the short term supply problems seem to be over. St Helena has now found another UK agent (Myliko Wines of Manchester) to replace Thierry's Wine Services. They plan to continue to develop a relationship with another UK multiple; to continue to make inroads into Europe, particularly Scandinavia; and to grow their markets overall in preparation

for the huge amount of New Zealand wine coming ‘on-stream’ from the extensive plantings which have already taken place. The expanded vineyard area will create special problems when all districts enjoy good harvests, but there should be no shortage of grapes available ‘on contract’ for St Helena (Mundy, 2008; Hayes, 2008).

Lessons from the case of St Helena Wine Estate 1978-2008

St Helena Wine Estate started as a wine business producing some 15,000-20,000 cases (12 bottle cases, or 135,000-180,000 litres) of wine per year in the early 1980s, when seasonal variations are taken into consideration. It is now marketing 115-120,000 cases (1,035,000-1,080,000 litres) per year, or a sevenfold increase in production. That is a significant achievement starting from a zero base in 1978, with no previous wine experience or family tradition, unlike many of their New World competitors such as Casella Wines, or ‘new’ Old World competitors like Jean-Claude Mas, the originator of the *Arrogant Frog* label for his Languedoc Vin de Pays wines (Tipples, 2008b).

Initial marketing experiences in New Zealand were frustrated because of difficulties of maintaining supplies to vendors, and when breakthroughs were achieved in exporting there were bad experiences with the commercial reliability of agents or those importing St Helena wines. Important lessons were learnt from both types of experiences, which have benefited St Helena and its subsidiaries in subsequent years.

The critical developments in exporting were started with the Cellars of Canterbury initiative, which eventually resulted in Cottesbrook Wines and the initially expanding and profitable relationship with Tesco plc. That created a blue ocean particularly where it involved the creation of the first successful Bag in a Box (BiB) of New Zealand Sauvignon Blanc on the UK market. From that relationship five initial lessons were drawn (Tipples, 2008a). First, Cottesbrook had seized a huge opportunity with Tesco, but one with considerable risks attached. Opportunities have to be grasped in spite of some risk. Secondly, they had concentrated on providing exactly what Tesco wanted, exactly labelled and packaged to Tesco requirements. Thirdly, they had monitored the supply situation to Tesco closely to ensure their wine was always on Tesco shelves, whether Tesco believed they needed them or not. Fourthly, they showed exemplary attention to detail throughout the supply chain, building relationships at all levels. Finally, the study confirmed the centrality of the channel coordinators to the success of the venture. To these can be added the wisdom of not keeping all their eggs in one basket if that relationship should fail, as it eventually did – both because of a change of buying policy by Tesco and because of the greater imperatives of Tesco plc’s international corporate competition policies and the vagaries of international exchange rates, together with the New Zealand government’s concerns with domestic inflation.

Entry to and exit from commercial relationships have been highlighted as features of supply chain life from New Zealand to worldwide markets. When the Tesco relationship ended for St Helena, measures to diversify into the Flying Kiwi wine brand was already well advanced as St Helena sought to establish another ‘blue ocean’. The story behind the Flying Kiwi was not only to promote the brand but also show the ‘green credentials’ of the Winery, with the donations made to the New Zealand Conservation Trust for the conservation of native Kiwis. Setting up that brand was facilitated by the serendipitous encounter with Harkness Walker Design, who helped with the preparation of the new brand labels and logos. That supplemented further the

experiences with design obtained in the Cottesbrook/Tesco relationship. Then that was taken further with the redesign of the brand to meet the needs of the German Aldi supermarket chain, with the *River Lane* label. All the wine sent from New Zealand was block stacked in the container, for easy packaging in the custom made Aldi sales modules for ease of display, efficient use of floor space, ready handling, and minimum waste disposal issues. A good wine brand has been said to need an authentic story – helping the Kiwi to ‘fly’ or survive; distinctiveness, as in the three Flying Kiwis; quality for the medium price point set for the wines; and consistency in all aspects of the brand (Curlewis, 2007). Flying Kiwi has been designed to achieve these factors.

Robin Mundy, at age 61, with another generation to succeed him (a son involved in Marlborough wine research) is still challenged by the new problems that a wine producer encounters each day. He has continued to be a successful channel coordinator, working especially closely with both his travelling international sales agent and problem/dispute handler, Graeme Thompson and Alan McCorkindale, his consultant winemaker. Further he has always been ready to buy in the skills needed to make his businesses succeed, from Danny Schuster originally to McCorkindale most recently. Yet he remains in touch with the different parts of his various supply chains through continued involvement in marketing promotions in different worldwide locations, profiling both St Helena’s different wine labels and New Zealand.

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