

BRL Hardy: Globalizing an Australian Wine Company

In January 1998, Christopher Carson smiled as he reviewed the Nielsen market survey results that showed Hardy was the top-selling Australian wine brand in Great Britain and held the overall number two position (to Gallo) among all wine brands sold in Britain's off-trade (retailers, excluding hotels and restaurants). As managing director of BRL Hardy Europe, Carson felt proud of this achievement that reflected a 10-fold increase in volume since his first year with Hardy in 1991.

But his mental celebration was short-lived. In front of him were two files, each involving major decisions that would not only shape the future success of the company in Europe but also have major implications for BRL Hardy's overall international strategy:

- The first file contained details of the proposed launch of *D'istinto*, a new line of Italian wines developed in collaboration with a Sicilian winery. Carson and his U.K. team were deeply committed to this project, but several questions had been raised by Australian management. Not least was their concern about *Mapocho*, another joint-venture sourcing agreement Carson had initiated that was now struggling to correct a disappointing market launch and deteriorating relations with the Chilean sourcing partner. □
- The second issue he had to decide concerned two competing proposals for a new entry-level Australian wine. His U.K.-based management had developed considerable commitment to *Kelly's Revenge*, a brand they had created specifically in response to a U.K. market opportunity. But the parent company was promoting *Banrock Station*, a product it had launched successfully in Australia which it now wanted to roll out as a global brand at the same price point.

Watching over these developments was Steve Millar, managing director of the South Australia-based parent company that had experienced a period of extraordinary growth, due in large part to BRL Hardy's successful overseas expansion (**Exhibit 1**). A great believer in decentralized responsibility, he wanted Carson to be deeply involved in the decisions. But he also wanted to ensure that the European unit's actions fit with the company's bold new strategy to become one of the world's first truly global wine companies. Neither did he want to jeopardize BRL Hardy's position in the critically important U.K. market that accounted for two-thirds of its export sales. For both Millar and Carson, these were crucial decisions.

Industry Background¹

Vines were first introduced into Australia in 1788 by Captain Arthur Phillip, leader of the group of convicts and settlers who comprised the first fleet of migrants to inhabit the new British colony. A wave of European settlers attracted by the gold rush of the mid-nineteenth century provided a boost to the young industry, both in upgrading the availability of vintner skills and in increasing primary demand for its output. Still, the industry grew slowly, and as late as 1969 annual per capita wine consumption in this beer-drinking country was only 8.2 liters—mostly ports and fortified wines— compared with over 100 liters per person per annum in France and Italy.

In the following 25 years, the Australian wine industry underwent a huge transformation. First, demand for fortified wines declined and vineyards were replanted with table wine varieties. Then, as consumers became more sophisticated, generic bulk wine sales—often sold in the two-liter “bag in a box” developed in Australia—were replaced by bottled varietals such as cabernet sauvignon, chardonnay, and shiraz, the classic grape type increasingly associated with Australia. By the mid- 1990s, domestic consumption stood at 18¹/₂ liters per capita, eighteenth in the world.

Over this two-century history, more than 1,000 wineries were established in Australia. By 1996, however, the 10 largest accounted for 84% of the grape crush and 4 controlled over 75% of domestic branded sales. Most of these were public corporations, the largest of which was Southcorp whose brands included Penfolds, Lindeman, and Seppelt. The number two company was BRL Hardy Ltd. (BRLH), selling under the Hardy, Houghton, Leasingham, and other labels.

During the 1980s and 1990s changes in the global wine industry had a major impact on these emerging Australian companies. A rationalization and consolidation among wine wholesalers and retailers was increasing the power of historically fragmented distribution channels. At the same time, however, large-scale wine suppliers from New World countries such as United States, South America, South Africa, and Australia were exploiting modern viticulture and more scientific wine- making practices to produce more consistent high-quality wine. These developments were occurring in an environment of rapidly growing demand from new consumers in nontraditional markets.

During this period of change, Australian wines began to find large markets abroad, and by 1995 exports accounted for more than 27% of production. But despite its rapid growth, the Australian industry accounted for less than 2% of the world wine production by volume and 2.5% by value. However, because only A\$13 billion of the total A\$65 billion global wine sales was traded product (80% of wine was consumed in the country of production), the Australian companies’ A\$450 million in 1995 exports represented 3.5% of the world export market. But in an industry that was becoming increasingly fashion-driven, Australian wine was becoming a “hot trend,” and an ambitious industry association saw export potential growing to A\$2.5 billion by 2025—a 16% share of the projected traded value.² Together with an increase in domestic consumption, this translated to A\$4.5 billion in Australian wine sales and a doubling of production to 1.7 million tonnes by 2025.

The Australian industry association saw four export markets as key—the United Kingdom, the United States, Germany, and Japan. While the U.K. market would decrease in relative importance (in 1996 it was the world’s largest non-producing wine importer and accounted for over 40% of Australian wine exports), over the next 25 years these four markets were expected to continue accounting for 60% of export sales. (See **Exhibit 2**.)

¹ For a full account, see Christopher A. Bartlett, *Global Wine Wars: New World Challenges Old (A)*, HBS No. 303-056 (Boston: Harvard Business School Publishing, 2002) and *(B)*, HBS. No. 304-016 (Boston: Harvard Business School Publishing, 2003).

² All forecast values are in 1996 Australian dollars at wholesale prices. At 1996 year end, the exchange rate was A\$1 = US\$0.8.

Company Background and History

BRLH’s roots could be traced back to 1853 when Thomas Hardy, a 23-year-old English vineyard laborer, acquired land near Adelaide, South Australia, and planted it with vines. In 1857 he produced his first vintage, exporting two hogsheads to England, and by 1882 he had won his first international gold medal at Bordeaux. When Hardy died in 1912, his company was Australia’s largest winemaker, but also one of the most respected.

Shortly after Hardy’s death, in the Riverland region northeast of Adelaide, 130 Italian grape growers formed Australia’s first cooperative winery in 1916, naming it the Renmano Wine Cooperative. In 1982 Renmano merged with the Riverland’s largest winery and distillery, the Berri Cooperative to form Berri Renmano Limited (BRL). By the early 1990s, almost 500 member growers were delivering over 50,000 tonnes of grapes to BRL, giving it the second-largest crush in Australia. This huge-volume grape crush and its bulk-packaging operations led some to refer to BRL disparagingly as “the oil refinery of the wine industry.”

Throughout their respective histories, Thomas Hardy & Sons and BRL followed quite different strategies and developed very different organizations. Hardy became known for award-winning quality wines, while the combined cooperatives specialized in fortified, bulk, and value wines—some sold under private labels. And in contrast to Hardy’s “polite and traditional” values, BRL’s culture was more “aggressive and commercial,” according to one observer of both companies.

International Roots

Although BRL experienced considerable success when it began selling abroad in the late 1980s (particularly in Scandinavia where it sold 6 million liters of bulk wines per annum), its efforts seemed quite modest when compared with Hardy’s long history of exporting much higher-value-added bottled products and the huge additional commitments it was making in that same period. To expand on its U.K. sales base of 12,000 cases per annum, Hardy believed it needed to stop relying on importers, distributors, and agents who carried scores of brands from dozens of vineyards. After a long search, in 1989 it acquired Whiclar and Gordon, a respected U.K.-based wine importer- distributor, including its agency rights for a range of French, Chilean, and South

African wines.

This move led management to begin talking about the possibility of buying European wineries that could provide their newly acquired distributors with the critical mass and credibility to give Hardy's wines greater access to Europe. Motivated by the looming 1992 target date for a unified European Community (EC) market, and stimulated by the notion that such alternative sources of supply could cushion the ever-present risk of a poor vintage in one region, Hardy's board felt this was an ideal time to invest. In contrast to the painstaking process of identifying acquisition targets for U.K. distribution, however, the vineyard purchasing decision seemed more opportunistic. In 1990, two Hardy directors visited the wine-growing regions in France and Italy, looking at properties on the market. Passing through southern France, they acquired the century-old Domaine de la Baume, a winery with extensive sources in the Languedoc region and several established domestic and export brands. Six months later, they took over Brolio de Ricasoli, a beautiful castle on a Tuscan hillside that made a well-known Chianti and was reputed to be Italy's oldest winery.

Almost immediately, however, problems surfaced in all three of the European acquisitions and soon they were bleeding the parent company of millions of dollars. Combined with a recession-driven market slowdown at home, these problems plunged Hardy into losses. Meanwhile, BRL was also struggling and was looking for ways to expand and upgrade its business. When one of Hardy's banks called in a loan and the company was forced to look for a financial partner, BRL was there.

Despite its own marginal financial performance, BRL management decided to propose a merger. Said one ex-BRL manager, "We had access to fruit, funds, and disciplined management; they brought marketing expertise, brands, and winemaking know-how. It was a great fit if we could learn to work together." Others, however, were less sanguine. Despite the fact that together the companies accounted for 22% of the Australian wine market and 17% of national wine exports, the dismissive industry view was, "When you put two dogs together, all you get is louder barking." Nonetheless, the companies merged in June 1992 and three months later became a publicly listed company.³

New Management, New Strategies

Following the merger, ex-BRL executives assumed the majority of top jobs in BRLH: the newly merged company's deputy-chairman, CEO, operations and technical director, and the international trading director all came from BRL. From the other side, only Hardy's managing director (who became BRLH's business development director) and the Australian sales and marketing manager survived as members of the new top executive team. Steve Millar, formerly BRL's managing director and now CEO of the merged company, explained his early priorities:

Our first task was to deal with the financial situation. Both companies had performed poorly the previous year, and although we thought our forecasts were conservative, the market was concerned we would not meet the promises made in our IPO [initial public offering]. . . . Then we

had to integrate the two organizations. This meant selecting a management team that could both implement the necessary retrenchments and position us for growth. Since the Australian market accounted for the vast bulk of our profit, we initially concentrated our attention at home. . . . Only after getting these two priorities straight could we focus on our new strategy.

The Domestic Turnaround

The strategy that emerged was simple: the company would protect its share of the bulk cask business but concentrate on branded bottle sales for growth. This would require a commitment to quality that would support its brands. The initial management focus would be on the domestic market, first getting merger efficiencies, then implementing the new strategy.

As important as developing a clear strategy, in Millar's mind, was the need to change the company's culture and management style. His sense was that, although there was great potential in the company's middle management, much of it—particularly in the ex-Hardy team—had been held back by being resource constrained and excluded from major decisions. Millar's objective was to create a more decentralized approach, but to hold management accountable. He explained:

It took time to get the message understood because Hardy management had tended to take a few big swings on high-risk decisions while keeping tight control over the small decisions. I wanted to delegate the small risks—to create a “have a go” mentality. The objective was to have us trying 20 things and getting 80% right rather than doing one or two big things that had to be 100% right.

³ The Italian Ricasoli operations were explicitly excluded from the merger due to their continued substantial losses and the likelihood they would continue.

The prerequisite to delegation, however, was that managers had to be willing to challenge the status quo, accept responsibility for the outcome of decisions that were delegated, and admit when they had made a mistake. David Woods, previously Hardy's national sales manager and now appointed to the same position in the merged company, recalled that the new management style was not easy for everyone to adopt: “Many of us from Hardy felt like outsiders, unsure if we would be allowed into meetings. It became easier after the first year or so when you had shown you could perform. But you definitely had to earn your stripes.”

Woods “earned his stripes” by integrating the two sales forces, capturing the economies from the combination, and repositioning the product portfolio in line with the new strategy emphasizing quality branded bottle sales. The results were impressive with both domestic bottle market share and profitability increasing significantly in the first two years of BRLH's operation.

Relaunching International

Meanwhile, Millar had appointed Stephen Davies, an ex-BRL colleague who he regarded as a first-class strategic marketer, as group marketing and export manager for BRLH. A 12-year veteran of BRL, Davies had been responsible for establishing that company's export division in 1985 and had been credited with its successful expansion abroad. While the rest of top

management's attention was focused on a major restructuring of the domestic operations, Davies began evaluating the company's international operations. What he found was a dispersed portfolio of marginal-to-weak market positions: a U.K. business selling a small volume of Hardy wines and just breaking even, a rapidly eroding BRL bulk business in Sweden, a weak Hardy-U.S. presence supported by a single representative, and a virtually nonexistent presence in Asia or the rest of Europe.

In Davies's mind, a few clear priorities began to emerge, many of which shadowed the domestic approach. The first priority had to be to clean up the operating problems that were the source of the financial problems. Only then would they focus on building on their strengths, starting with their position in the U.K. market. Making "Quality Wines for the World" the company's marketing slogan, Davies began to build the export strategy on the basis of a strong quality brand image. From the existing broad portfolio of exported products, he initiated a program to rationalize the line and reposition a few key brands in a stepstair hierarchy from simple entry level products to fine wines for connoisseurs. At the mass market price points, for example, he focused the line on *Nottage Hill* and *Stamps* as the Hardy's "fighting brands," while at the top end he targeted the *Eileen Hardy* brand. (See **Exhibit 3** for rationalized export portfolio of brands.)

BRL Hardy in Europe

In the large, developed U.K. market, Davies found a turnaround had already begun under the leadership of Christopher Carson, managing director of Hardy's U.K. company. Carson was an experienced marketing manager with over 20 years in the wine business and particular expertise in Italian wines. He had been hired by Hardy in October 1990 to head the U.K. company's sales and marketing function, including the recently acquired distributor. Within a week of his joining, however, Carson realized that the financial situation in these companies was disastrous. He flew to Australia to tell Hardy's management that they would own a bankrupt U.K. organization unless drastic action was taken. He then proposed a series of cost-cutting steps.

In February 1991, Carson was appointed U.K. managing director and immediately began to implement his cost-cutting plan. Over the next 18 months, he pruned the product line from 870 items to 230 and reduced the headcount from 31 to 18 (including a separation with three of the six executive directors). He also installed strong systems, controls, and policies that put him firmly in charge of key decisions. As these actions were implemented, the 1990 losses became a breakeven operation in 1991, and by the time of the mid-1992 merger, it looked as if the European operations would be profitable again. (For BRLH Europe financials, see **Exhibit 4**.)

Developing the Headquarters Relationship

In his discussions with Davies in late 1992, Carson highlighted the key problems and priorities as he saw them. First was the need to build quickly on the 178,000 cases of Hardy-brand products that had represented less than a quarter of his total volume in 1991 (500,000 of his 700,000 case sales in 1991 were accounted for by a variety of low-margin French wines handled under agency agreements that had come with the purchase of Whiclar and Gordon). At the same time, if the

company was going to restore the financial health of its French winemaker, Domaine de la Baume, he felt he would have to build substantially on the 10,000 cases of its product which he had sold in 1991. (He reported 1992 sales were on track to double their previous year's volume.) And finally, he wanted to protect an unstable imported Chilean product that had come as a Whiclar and Gordon agency. Carson told Davies of his plans to grow the high potential brand from 20,000 cases in 1991 to a forecast 60,000 cases for 1992.

Davies agreed with Carson's plans, particularly endorsing the focus on the Hardy brands. Yet the relationship was an uneasy one in the post-merger management uncertainties. The BRL-dominated headquarters management supported delegation—but only to those who had “earned their stripes.” Within the Hardy-built European company, on the other hand, there were questions about whether their bulk-wine-oriented BRL colleagues understood international marketing. “There was a real tension,” said one observer. “A real feeling of us versus them. I think Christopher and Stephen had some difficult conversations.” The relationship was delicate enough that Steve Millar decided to have Carson report directly to him on the U.K. company's profit performance but through Davies for marketing and brand strategy. (For BRLH international organization, see **Exhibit 5**.) But Millar did not want the shared reporting relationship to pull him into a role of resolving disputes on operating issues. Instead, he hoped for negotiation:

Christopher had a good reputation and knew the market well. I assumed he would be a key player and was willing to let him prove it. He and Stephen just clashed, but confrontation can be healthy as long as it is constructive. I just kept urging them to work with together— they could learn a lot from one another.

The biggest disputes seemed to emerge around marketing strategies, particularly branding and labeling issues. Although Hardy exported a dozen brands covering the full price range, its entry-level brands in the United Kingdom were Hardy's *Stamps*, blended red and white wines that then retailed for £2.99 and Hardy's *Nottage Hill*, a single varietal red and white at the £3.69 price point. Together, these two brands accounted for over 80% of Hardy brand sales by value and even more by volume. Carson was concerned that the image of these brands had eroded in the United Kingdom, and that he wanted to relabel, reposition, and relaunch them. But it was difficult to convince the home office, and he expressed his frustration:

Australia controlled all aspects of the brand and they kept me on a pretty tight leash. When I took my message to Reynella [BRLH's corporate office near Adelaide], they didn't want to hear. They expect you to get runs on the board before they give you much freedom. . . . But we were in the U.K. market and they weren't. Finally they agreed, and in 1993 we relabeled and relaunched *Nottage Hill* and repositioned *Stamps*. By 1994 our volume of Hardy's brands quadrupled from 1992 and represented more than half our total sales. (See **Exhibit 6**.)

Davies acknowledged that he yielded on the *Stamps* and *Nottage Hill* decisions, believing “it was better to let people follow a course they believe in—then the implementation will be better.” But he became increasingly concerned about the demand for local control over branding, labeling,

and pricing decisions, especially as the company's long-term strategy began to evolve.

The Evolving Strategy

In Reynella, by the mid-1990s, Millar and Davies began to conceive of BRL Hardy not as just a "quality exporter" but as an "international wine company" with worldwide product access backed by the marketing capability and distribution muscle to create global brands. As Millar explained:

It was an important strategic shift. Most packaged goods businesses are dominated by multinational companies with global brands—like Coke or Kraft. We realized that there were no really established global wine companies and, despite our newness at the game, we had a real chance to be one. . . . I began describing BRL Hardy to our shareholders as a company based on three core strengths: our world-class production facilities, our global brands, and our international distribution. Controlling those assets allows us to control our destiny in any major market in the world.

Within the industry, the notion of building global wine brands ran counter to the established wisdom. For example, Jean-Louis Duneu, the head of the Paris office of Lander, a branding consulting firm, recognized the potential of global branding, but was skeptical about its applicability to wine. "The promise of a brand is that it will be the same quality every time," he said. "That means that branded wine probably has to be blended to ensure consistency. The result is never as satisfying." Jonathan Knowles, another corporate identity consultant warned of another potential problem. "Wine lovers look for something they haven't heard of," he claimed. "There's almost an anti-branding mentality. When people who are not in the know get to know the brand name, people in the know no longer want the product."

That view also seemed widespread among traditional wine producers. In the highly fragmented European industry—there were 12,000 producers in Bordeaux alone—only a few top-of-the-market names like Lafite, d'Yquem, and Veuve Clicquot had achieved global recognition, but these held minuscule market shares. Of those that had attempted to build mass market global brands over the years, only a handful—Mateus Rosé, Blue Nun, Mouton Cadet, and Hirondele, for example—had succeeded. And of these, most had managed to capture only relatively small volumes and for brief periods of time. After years of trying, Gallo, the world's biggest wine brand, accounted for considerably less than 1% of global wine sales, mostly in its home market.

Nonetheless, Millar and Davies believed that changes in wine-making, the opening of global markets, and the changing consumer profile would all support their objective to become a truly international wine company built on a global branding capability. To implement this strategic shift, Davies felt the Reynella headquarters had to be the "global brand owners." He explained:

Although we believe in decentralization and want to listen to and support overseas ideas and proposals, we also have to be clear about Reynella's role. Everyone has opinions on label design, but we'll lose control of the brand if we decentralize too much. Our role should be as brand

owners deciding issues relating to labeling, pricing, and branding, and overseas should be responsible for sales, distribution, and promotion strategy.

Carson and his U.K. management team had some difficulty with this concept, and disagreements between the two executives continued through the mid-1990s. Carson tried to convince Davies that, unlike the Australian market where branded products accounted for 90% of sales mostly through hotels and bottle shops, the United Kingdom was not yet a branded wine market. Retailers' own labels dominated, particularly in the supermarkets that accounted for more than 50% of retail wine sales. (Indeed, both BRL and Hardy had previously been sources for private labels, but had since discontinued the practice.) Proximity to Continental sources meant that another big segment was claimed by a proliferation of tiny vineyard or village labels with little or no brand recognition, leaving only 12% of sales to recognized proprietary branded wines in 1995. In such a market, Carson argued, it would be hard to support a brand-driven strategy. He elaborated:

We have to manage a progression from commodity to commodity brand to soft brand to hard brand. And at the early stage of that progression, distribution is key. It's more push than pull, and you need retailers' support to get your product on their shelves. That's why labeling is so important. Women represent 60% of the supermarket wine buyers and the label has to appeal to them.

As the decade rolled on, the debate between Carson and Davies continued. But, as Steve Millar put it, "With 70% growth, we could support the tension."

The 1997 Watershed Decisions

On the basis of the U.K. company's excellent performance, Carson was appointed chief executive of BRL Hardy Europe in 1995. He immediately began putting together some bold plans for the company's continued growth and, over the next couple of years, set in motion some initiatives that were to create a mixture of excitement and apprehension within the organization.

The Outsourcing Ventures

For the first five years following the merger, Carson had focused most of his attention on building sales of the Hardy brand wines. However, he remained acutely aware of the importance of the other non-Australian product lines he had inherited through the Whiclar and Gordon acquisition. Not only did the added volume bring scale economies to his sales and distribution operation, they also provided BRLH Europe with some other important strategic benefits.

As an agricultural product, every region's grape harvest was vulnerable to weather, disease, and other factors affecting the quality and quantity of a vintage. Carson recognized that sourcing from multiple regions was one way to minimize that risk. Furthermore, he became increasingly aware that major retailers—particularly grocery chains like Sainsburys—were trying to rationalize their suppliers. To simplify wine buying, they wanted to deal with only a few key suppliers who could

provide them with a broad line of quality products. And finally, currency fluctuations exposed traded products like wine exports to currency-driven price variations that could substantially affect marketability, particularly for lower-priced products. (See **Exhibit 7.**)

For all these reasons, in 1997 Carson began to devote more of his time and attention to two non-Australian wine sources—a move that seemed to fit with Reynella’s new emphasis on becoming “an international wine company.” This shift was triggered by the unpleasant revelation in late 1996 that *Caliterra*, a brand he and his sales organization had built into the leading Chilean import in the United Kingdom, would not be renewing its distribution agreement. The supplier, Caliterra Limitade, had signed a joint venture agreement with U.S. winemaker Robert Mondavi.

Determined never again to invest in a brand he did not control, Carson initiated action on two fronts. In early 1997, he negotiated a 50/50 joint venture agreement with Jose Canopa y CIA Limitada under which the Chileans would provide the fruit and the winemaking facility while BRL Hardy would send in one of its winemakers to make several wines that it would sell in Europe under the *Mapocho* brand, using its marketing and distribution capabilities. Despite several mishaps, difficulties, and delays during the negotiations (including a near derailing when Carson’s main contact left Canepa), by late 1997 the supply arrangements were in place.

At the same time he was finalizing the Chilean deal, Carson was also exploring alternative European sources, particularly for red wine. In March 1997, he made initial contact with Casa Vinicola Calatrasi, a family-owned winery in Sicily with links to a major grape grower’s cooperative. After explaining his interest in developing a line of branded products to be sold through BRLH’s distribution channels, he began analyzing product availability, volume forecasts, and prices.

Over the following months, he returned to Sicily a couple more times, meeting with the co-op farmers to explain how branding could give them security of demand and eventually better prices for their fruit. He told them of BRL Hardy’s expertise in viticulture, and offered the help of the company’s highly regarded technical experts to further enhance the value of their harvest through more productive vineyard techniques and new winemaking methods. Having experienced difficult negotiations with the Chilean joint venture, Carson wanted to avoid similar problems and emphasized that this would work only if it was a true partnership. He wanted the farmers’ best fruit and their commitment to make the project work. At his first presentation, 60 farmers showed up. When the word spread, Carson found he had an audience of 135 receptive co-op members at his second presentation. “We all had a very good feeling about the relationship,” said Carson. “It felt much more like a partnership than the Chilean JV where they were acting more like suppliers than part owners.”

Returning to London, Carson engaged his organization in developing a strategy for the product code-named *Mata Hardy*. While detailed marketing plans were being developed internally, an external consultant began generating over 2,000 possible brand names. As Carson and his sales and marketing staff began narrowing the choices, they engaged a designer to develop labels and packaging that would capture the Mediterranean lifestyle they wanted the brand to reflect.

By July 1997, the marketing plans were developed to the point that Carson was ready to review his proposal with management in Reynella. He described how he wanted to offset projected Australian red wine shortages with alternative sources. Presenting his vision of sourcing from both the northern and southern hemispheres, he outlined his need for a full line to maximize his leverage as a distributor. He then described the broad objective of developing a brand that would respond to the average wine consumer who was interested in wine but not necessarily very knowledgeable about it. The new product was designed to give them the information they needed on appealing, easy-to-read labels with a pronounceable brand name. The objective was to give them a wine they would enjoy and a brand they would trust.

Carson then presented the portfolio of eight new Italian-sourced wines spread across the low and low-middle price points. At the baseline £3.49 price point would be wines made from less well known indigenous Sicilian grapes. At the next level would be blends of indigenous and premium varietals (a Catarrato-Chardonnay white and Nero d'Avola-Sangiovese red, for example) priced at £3.99. At £4.99 he planned to offer pure premium varietals such as Syrah and Sangiovese, while to top out the line he wanted to offer blends of super-varietals such as Cabernet-Merlot at £5.99.

The highlight of the presentation was when Carson unveiled his idea about creating a strong branded product, revealing both the final name choice—*D'istinto*, which translated as “instinctively”—and the boldly distinctive labels and other packaging designs. (See **Exhibit 8**.) (He swore all who saw the branding materials to secrecy since his intention was to reveal the new name and label with great fanfare just before its planned launch in early 1998.) The plan was to give *D'istinto* a unique image built around the Mediterranean lifestyle—passionate, warm, romantic, and relaxed—and to link it strongly to food. Each bottle would have a small booklet hung on its neck, describing the wine and inviting the buyer to write for free recipes. The intention was to create a database of wine-and-food-loving consumers to whom future promotions could be mailed. “This line can help us build BRLH Europe in size, impact, and reputation,” said Carson. “We need to become known as a first-class branding company—a company able to leverage great distribution and strong marketing into recognized consumer brands.”

In the meanwhile, however, early signs were that the *Mapocho* project was not going well. For months, Canepa managers had been raising doubts and concerns about the JV. For example, they claimed their costs went up, and wanted to renegotiate the supply price. By the time things got back on track, the Chilean company had made other commitments and the new venture lost its opportunity to get early access to the pick of the 1997 grape harvest. As a result, first samples of *Mapocho* sent to London by BRL Hardy's winemaker were disappointing. The Chileans thought the problem was due to the winemaker sent from BRL Hardy being unfamiliar with Chilean wine, while he insisted they had not provided him with quality fruit. Early sales were disappointing and forecasts were that the first vintage would sell only 15,000 cases against the 80,000 originally planned. Unless there was a rapid turnaround, the company stood to lose up to £400,000. Despite this poor showing, however, the U.K. sales and marketing group was forecasting 1998 sales of 150,000 cases and the company was about to make a commitment to Canepa for this volume of their new vintage due in February. It was a forecast that made many in the Reynella headquarters

very nervous.

As a consequence, while the Australians were impressed by Carson's ambitious ideas for *D'istinto*, many questions and doubts were raised and approval was slow in coming. Some senior management still had bad feelings about the Italian wine business left over from Hardy's earlier ill-fated Italian venture. Even those who had not lived through the Ricasoli losses had concerns about the troublesome ongoing experiment with the Chilean sourcing joint venture. And still others, including Stephen Davies, were concerned that the new Sicilian line could cannibalize Hardy's two fighting brands. *D'istinto* was initially proposed as a product to fill the price points that had been vacated as *Stamps* and *Nottage Hill* had become more expensive. But, as the Australian management pointed out, the extended Sicilian line now clearly overlapped with Hardy's core offerings—not only *Stamps* at £4.49 but even with *Nottage Hill* now selling for £5.49 (see **Exhibit 9**).

Finally, Steve Millar raised a more organizational concern. He was worried about the possibility of Carson losing his focus and about the strength of the European sales organization to carry another brand when it was already struggling with *Mapocho*. In the context of the U.K.'s over-commitment to the *Mapocho* launch, he was even more concerned when he saw *D'istinto's* projected sales of 160,000 cases in the first year rising to 500,000 by year four. "You will never do those numbers," said Millar. Carson's response was that he thought *D'istinto* had global potential and could eventually reach a million cases. "By the next century, we'll even be exporting Italian wine to Australia!" he said.

Yet despite the lighthearted exchange with his boss, the widely expressed doubts he confronted in the Australian review meeting caused Carson to reflect. The financial investment in the branding, packaging, and launch expenses was relatively small—probably less than £100,000. But in a situation of continued difficulty with *Mapocho* sales, Carson understood that the real financial risk could come later in the form of contract commitments and excess inventory. Furthermore, he knew that the questions Steve Millar had raised about organizational capacity and his own risk of distraction were real. Would *D'istinto* overload human resources already stretched thin by the rapid expansion of the previous five years? And would it prove to be too big a competitor for management time, corporate funding, and eventually consumer sales? The questions were complicated by another decision Carson faced—one relating to the development of a new Australian product to extend the company's existing range of fighting brands.

The Australian Opportunity

As the *Stamps* and *Nottage Hill* brands gradually migrated upward to straddle the £4.49/£4.99/£5.49 price points, Carson believed there was an opening for a new low-end Australian brand to fill in the first rungs on the Hardy's price ladder. Because the price points below £4.49 represented more than 80% of the market, he felt it was an important gap to fill. Being fully occupied with the Chilean and Italian projects, however, he found himself unable to devote the time he wanted to developing a new Australian brand. To Steve Millar, this presented the ideal opportunity to push an agenda he had been urging on Carson for some time—the need to

develop the senior levels of the U.K. organization, particularly on the marketing side. Said Millar:

Christopher had done an amazing job of building the U.K. But he had driven much of it himself. . . . For a couple of years I'd been telling him, "Get people even better than you *below* you." We'd even sent a few Australians to support him in marketing and help the communication back home. But most of them got chewed up pretty quickly.

Finding himself stretched thin, and recognizing he had to stand back from controlling operations, Carson agreed to take on a new expat Australian marketing manager. The person he chose was Paul Browne, an eight-year company veteran whose career had taken him from public relations to brand management in Australia. Most recently, he had been responsible for export marketing for the United States and Oceania, reporting to the president of BRL Hardy USA. Carson explained his choice:

I wanted a driver. Someone who could take charge and get things done. As an Australian with an understanding of group level activities, Paul fit our need to fill the weakness in marketing. He roared into the business with great enthusiasm and linked up with our sales director and national accounts manager to understand the local market's needs.

Browne concluded that there was an opportunity for a Hardy's brand positioned at the £3.99 price point, but able to be promoted at £3.49. He felt the market was ready for a fun brand—even slightly quirky—which would appeal to a younger consumer, perhaps a first-time wine drinker who would later trade up to *Stamps* and *Nottage Hill*. The brand he came up with was *Kelly's Revenge*, named for an important character in the history of the Australian wine industry, but also suggestive of Ned Kelly, the infamous Australian bushranger (outlaw) of the early nineteenth century. With backing and support of the U.K. sales management, they pursued the concept, designing a colorful label and preparing a detailed marketing plan. (See **Exhibit 10**.) As excitement and enthusiasm increased, Carson stood back and gave his new product team its head.

Meanwhile, in Reynella, BRLH in Australia was developing a major new product targeted at a similar price point. In 1995, the company had acquired Banrock Station, a 1,800-hectare cattle grazing property in South Australia's Riverland district, with the intention of converting a portion of it to viticulture. During the planting and development phase, visitors' universally positive reaction to BRLH's ongoing conservation efforts—planting only 400 hectares while returning the remaining land to its native state including the restoration of natural wetlands—convinced management that the property had brand potential. (See **Exhibit 11**.)

Positioned as an environmentally responsible product with part of its profits allocated to conservation groups, the *Banrock Station* brand was launched in Australia in 1996. The brand's image was reflected in its earth-tone labels and its positioning as an unpretentious, down-to-earth wine was captured by the motto "Good Earth, Fine Wine." Blended *Banrock Station* wines started at A\$4.95, but the line extended up to premium varietals at A\$7.95. In the United Kingdom, it would be positioned at the same price points as the proposed *Kelly's Revenge*. The product was an immediate success in Australia, and soon thereafter became the largest-selling imported brand

in New Zealand.

Convinced of *Banrock Station's* potential as a global brand, Davies and Millar urged BRLH companies in Europe and North America to put their best efforts behind it. Canadian management agreed to launch immediately, while in the United States, the decision was made to withdraw the *Stamps* product, which local management felt was devaluing the Hardy's image, and replace it with *Banrock Station*. But in Europe, where the *Kelly's Revenge* project was in its final development stages, the management team expressed grave doubts about *Banrock Station*. They argued that the label design was too dull and colorless to stand out on supermarket shelves, and that the product's environmental positioning would have limited appeal to U.K. consumers half a world away.

Steve Millar described the conflict that emerged around the competing concepts:

I accept it as my mistake. I'd been pushing Christopher to delegate more and trying to get more Australians on his staff to help build links back to Australia. But Paul Browne became our biggest problem. He just didn't have the skills for the job but he wanted to control everything. Then on top of that he started playing politics to block *Banrock Station*. When we asked him to give the new concept a try, he kept insisting it would never work. We got the feeling he had even organized customers to tell us how bad the label was. Instead of helping communications between Australia and Europe he became a major barrier.

Meanwhile, Browne presented his new *Kelly's Revenge* concept to the Australian management to a very skeptical reception. Davies's reaction was immediate, strong, and negative, seeing it as "kitsch, downmarket, and gimmicky." He and his Reynella-based staff felt they knew more about marketing Australian wines than the European management. In Davies's words, "By decentralizing too much responsibility, we realized we risked losing control of brand issues. We wanted to take back more control as the brand owners."

Steve Millar recalled his reaction to the *Kelly's Revenge* proposal:

I told them I thought it was terrible, but that it really didn't matter what I thought. I suggested we get the customers' reaction. When we took *Kelly's Revenge* to ASDA, the UK grocery chain, they were not enthralled. So I took that as an opportunity to suggest we give *Banrock Station* a try.

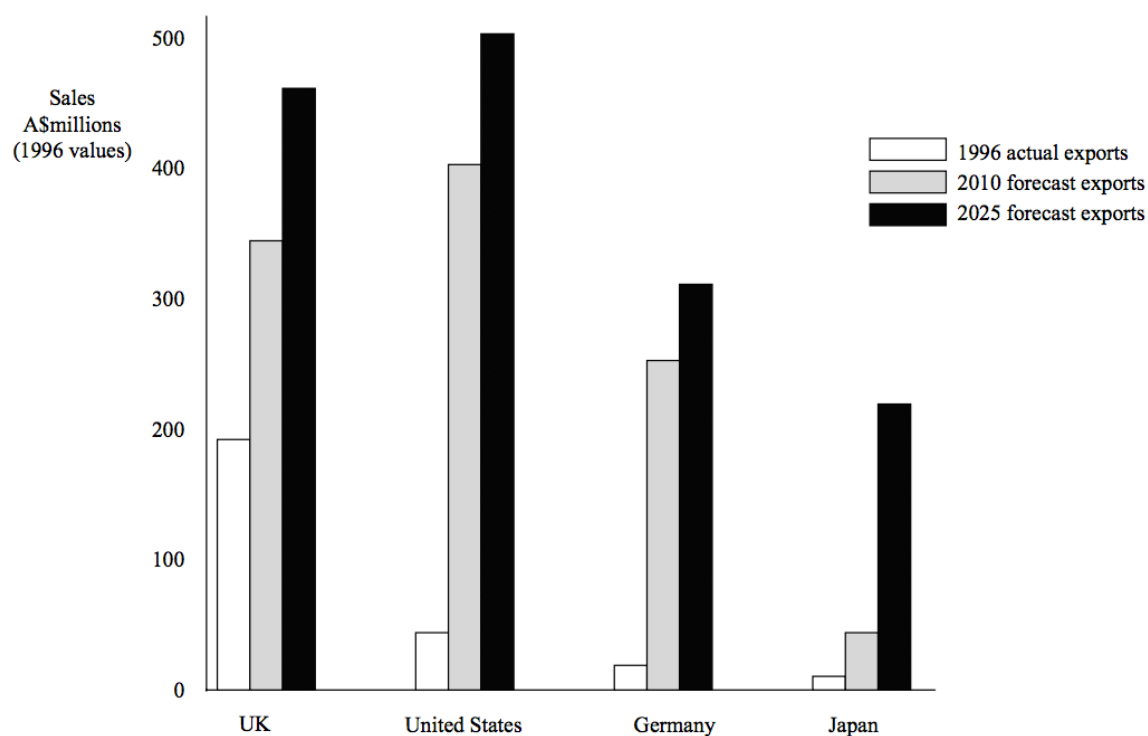
Although Christopher Carson had been backing his new marketing manager to this point, with *Banrock Station* succeeding elsewhere and senior management behind it as a global brand, the issue was becoming very complex. He knew the organization could not support both brands and felt the time had come when he would have to commit to one project or the other. For Steve Millar, the situation was equally complex. Given the U.K.'s strong performance, he wanted to give Carson as much freedom as possible, but also felt responsible for the implementation of the company's global strategy. Running through his mind was how he would respond if Carson and his U.K. organization remained firm in its commitment to *Kelly's Revenge* over *Banrock Station*.

Exhibit 1 BRL Hardy Limited: Summary Group Financial Results—1992-1997 (Aus\$millions)

	1992	1993	1994	1995	1996	1997
Sales revenue	151.5	238.3	256.4	287.0	309.0	375.6
Operating profit (before interest, tax)	16.7	26.6	30.2	34.0	39.3	49.2
Net after tax profit	8.8	13.3	15.8	17.4	21.2	28.4
Earnings per share	13.2¢	14.1¢	15.7¢	15.7¢	18.1¢	23.3¢
Total assets	216.8	234.6	280.7	329.0	380.6	455.5
Total liabilities	117.4	127.4	146.6	160.4	194.4	205.8
Shareholders' equity	99.4	107.2	134.1	168.6	186.2	249.7
Debt/equity ratio	70%	57%	57%	53%	58%	41%

Source: Company documents

Exhibit 2 Australian Wine Export Forecasts—Selected Markets 1996-2025



Source: Australian Wine Industry Association

Exhibit 3 BRL Hardy Domestic versus Export Product Portfolio, 1993

SOFT PACK (CASK) WINE

- 2 litre Benmano and Stanley range
- 3 litre Berri fortified range
- 4 and 5 litre Stanley, Berri and Buronga Ridge range
- 10, 15, and 20 litre Stanley and Berri Range

BOTTLED TABLE WINE

- less than \$6.00
 - Brentwood range
 - Brown Bin 60
 - Hardy Traditional range
 - * Hardy Stamp Series
 - Spring Gully range
 - * Nottage Hill
 - Leasingham Hutt Creek
 - McLaren Vale hermitage
- \$6.00 to \$10.00
 - * Houghton White Burgandy
 - Hardy Siegersdorf range
 - * Leasingham Domaine range
 - * Houghton Wildflower Ridge range
 - Hardy Bird Series range
 - Hardy Tintara range
 - Moondah Brook Estate range
 - Renmano Chairman's Selection range
 - Redman Claret and Cabernet Sauvignon
 - Barossa Valley Estate range
 - Chais Baumiére range
- \$10.00 to \$15.00
 - * Hardy Collection range
 - * Houghton Gold Reserve range
 - * Chateau Reynella Stony Hill range
- over \$15.00
 - * Eileen Hardy range
 - Lauriston range
 - E&E Black Pepper Shiraz

SPARKLING WINE

- less than \$6.00
 - Courier Brut
 - Hardy Grand Reserve
 - Chateau Reynella Brut
- \$6.00 to \$10.00
 - * Hardy's Sir James Cuvee Brut
- over \$10.00
 - Hardy's Classique Cuvee
 - Lauriston Methode Champenoise

FORTIFIED WINE

- less than \$6.00
 - Brown Bin 60
 - Cromwell
 - * Tall Ships
 - Stanley 2 litre port soft pack (cask)
- \$6.00 to \$10.00
 - Rumpole
 - * Old Cave
- over \$10.00
 - Lauriston Port & Muscat
 - Hardy Show Port
 - Vintage Port
 - Chateau Reynella Vintage Port

BRANDY

- * Hardy Black Bottle
- Berri
- Renmano

All prices are based on the recommended retail price

- * Rationalized export line (13 of 48 brands)



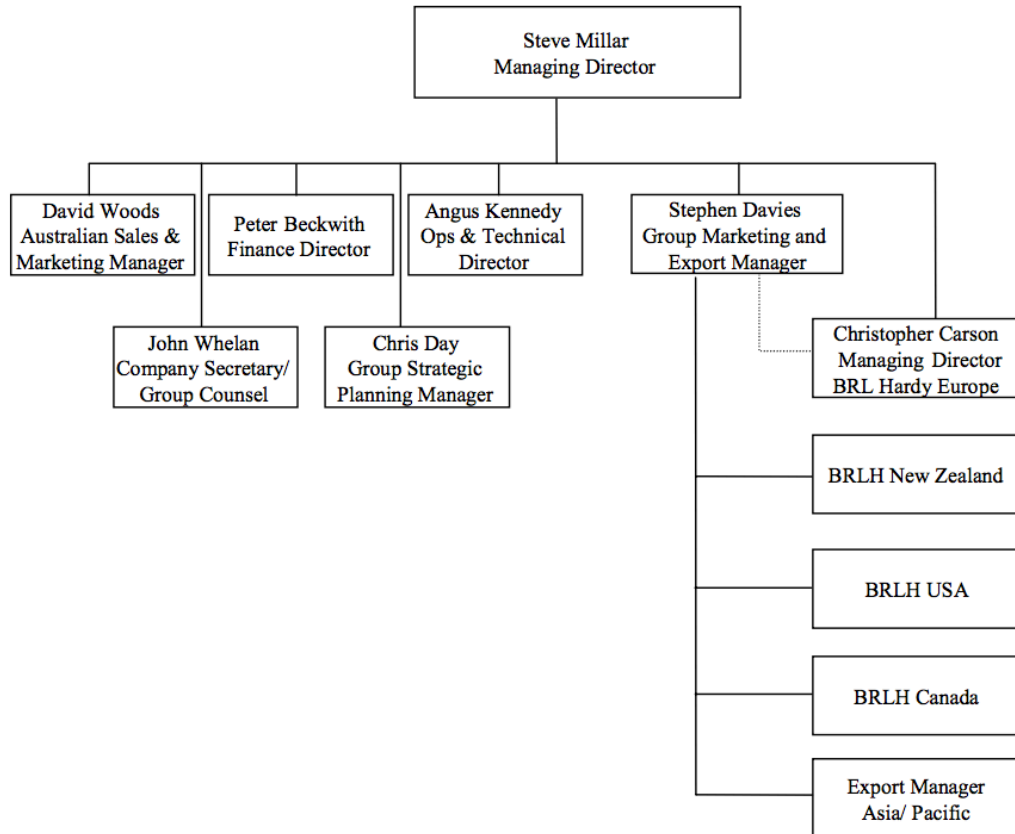
Source: Company documents

Exhibit 4 BRL Hardy Europe Ltd.: Key Historical Data (£'000)

	Forecast per BRLH Europe Strategic Plan											
	1990	1991	1992	1993	1994	1995	1996	1997	Plan 1998	Plan 1999	Plan 2000	Plan 2001
Net sales turnover	In GB £ £10,788 A\$22,243	£12,112 A\$24,973	£12,434 A\$29,965	£15,521 A\$33,830	£18,813 A\$37,946	£27,661 A\$57,734	£32,271 A\$69,532	£40,100 A\$82,680	£53,848 A\$111,027	£66,012 A\$136,107	£78,814 A\$162,503	£91,606 A\$188,878
Gross profit (after distribution expense) GP %/sales	£1,173 10.9%	£1,429 11.8%	£1,438 11.6%	£1,595 10.3%	£1,924 10.2%	£2,592 9.4%	£3,202 9.9%	£4,212 10.5%	£5,453 10.1%	£6,488 9.8%	£7,630 9.7%	£8,787 9.67%
Administrative cost	£1,104 10.2%	£1,261 10.4%	£1,164 9.4%	£1,172 7.6%	£1,308 7.0%	£1,896 6.9%	£2,118 6.8%	£2,717 6.8%	£3,649 6.8%	£4,473 6.8%	£5,340 6.8%	£6,207 6.8%
Profit after tax	-£26 -0.2%	£6 0.0%	£157 1.3%	£266 1.7%	£395 2.1%	£426 1.5%	£723 2.2%	£948 2.4%	£1,087 2.0%	£1,286 1.9%	£1,460 1.9%	£1,644 1.8%
Average No. of employees £ Sales per employee	31 £348	27 £449	19 £654	20 £776	22 £855	24 £1,153	28 £1,153	34 £1,179	48 £1,122	62 £1,065	76 £1,037	91 £1,007
Stock @ year end	£1,226 7.8	£1,043 10.2	£605 18.2	£897 15.5	£1,392 12.1	£1,265 19.8	£1,504 19.3	£1,500 23.9	£2,100 23.0	£2,600 22.9	£3,300 21.6	£3,900 21.2
Return on investment	-2.1%	0.5%	11.2%	17.9%	24.5%	23.5%	35.7%	39.7%	38.0%	37.8%	36.1%	37.2%

Source: Company documents

Exhibit 5 BRL Hardy's International Organization, 1993



Source: Company documents

Exhibit 6 BRL Hardy Europe Ltd.: Case Summary History

In Std. 9 Liter Cases	1991	1992	1993	1994	1995	1996	1997
Hardy	178,500	194,303	411,084	856,876	1,031,071	1,383,772	1,763,698
Domaine de la Baume	10,000	19,564	49,698	63,540	89,256	155,608	158,587
Chile	20,000	58,848	24,855	76,775	112,954	120,540	50,537
French Agencies (AGW)	497,500	618,878	528,606	545,198	446,445	51,257	186,180
French Projects					2,162	58,744	
Grand Total	706,000	891,593	1,014,243	1,542,389	1,681,888	1,769,921	2,159,002

Source: Company documents

Exhibit 7 Key Currency Fluctuations Affecting BRLH Europe

	\$Aus/£	It Lira/£	Chilean Peso/£	\$US/£
12/92	2.197	2239	NA	1.514
12/93	2.213	2516	NA	1.492
12/94	2.013	2546	NA	1.559
12/95	2.080	2455	630.8	1.541
12/96	2.088	2544	703.0	1.664
12/97	2.505	2892	727.1	1.659

Source: Company documents

Exhibit 8 D'istinto Proposed Packaging and Positioning



Capsule Product Position/Brand Image

- Value
- Quality
- Mass appeal
- Mediterranean lifestyle
- Food-friendly
- Relaxed
- Warm
- Romantic

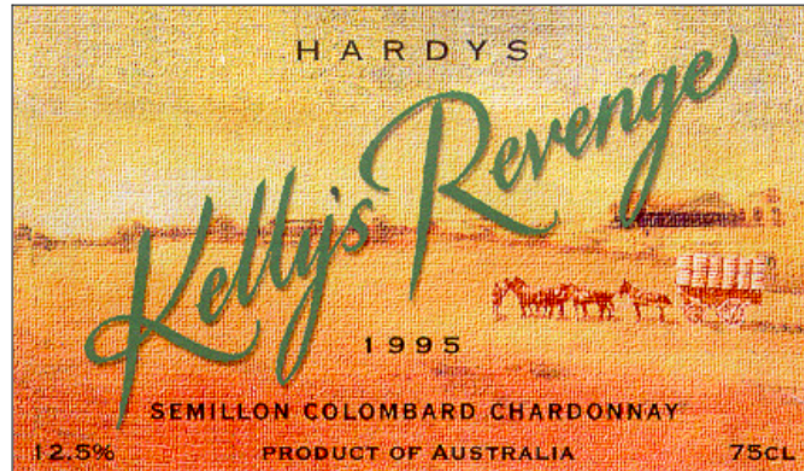
Source: Company documents

Exhibit 9 U.K. Product Price Point Matrix

Recommended Retail Price Point (£)	Hardy	Leasingham Chateau Reynella	Houghton	Mapocho	D'istinto
27.99	Eileen Hardy Shiraz Thomas Hardy Cab Sauv		Jack Mann Red		
24.99		E&E Black Pepper			
19.99		Classic Clare Shiraz			
12.99	Eileen Hardy Chardonnay	Ebenezer Shiraz	Crofters Cab Merlot		
11.99		Ebenezer Cab Merlot			
		Ch Reynella Shiraz			
		Ch Rey Cab Merlot			
9.99	Coonawarra Cab Sauv	Leasingham Shiraz			
		Leas Cab Malbec			
8.99		Ebenezer Chardonnay	Crofters Chardonnay		
		Ch Rey Chard			
		Leas Chard			
7.99	Pathway Chardonnay	Domain Grenache	Wildflower Shiraz		
6.99	Bankside Shiraz Nottage Hill Sparkling	Leas Chardonnay Leas Semillon			
6.49	Bankside Chardonnay				
5.99	Nottage Hill Shiraz Stamps Sparkling			Merlot	Cabernet Merlot
5.49	Nottage Hill Cab Shiraz		Wildflower Chardonnay Wildflower Chenin Blanc		
4.99	Nottage Hill Chardonnay Nottage Hill Reisling Stamp Shiraz Cabernet Stamp Grenche Shiraz			Cab. Sauv. Chardonnay	Syrah Sangiovese
4.49	Stamp Chardonnay Sem Stamp ReislingGTTraminer			Sauv. Blanc	
3.99					Cataratto/Chardonnay Sangiovese/Merlot
3.49					Trebiano/Insolia Nero d'Aviola

Source: Company documents

Exhibit 10 *Kelly's Revenge*: Label and Product Concept



Proposed Promotion Material/Back Label

It has taken 130 years for Dr. Alexander Kelly to have his revenge. Kelly was the first to recognize the wine growing potential to Australia's McLaren Vale region. His vision, however, was ahead of its time, and his eventual bankruptcy enabled the acquisition of the original Tintara Winery by Thomas Hardy. Hardy's wines eventually established the reputation of the McLaren Vale, winning tremendous praise at the Colonial and Indian Wine Exhibition in 1885. Kelly's descendents have continued to forge Hardy's winemaking tradition, and to this day Tintara Cellars are the home of Hardy's Wines, one of Australia's finest and most highly awarded winemakers. This wine is dedicated to the spirit of our pioneers.

Source: Company documents

Exhibit 11 *Banrock Station: Environmentally Responsible Product Positioning*



Proposed Product Promotion Material

Banrock Station's precious soil is treated with respect and in return it nurtures the premium grape varieties that create our value-for-money, easy drinking wines of great character. Situated in the heart of South Australia's Riverland region, directly opposite the historic Cobb & Co. stage coach station, Banrock Station is a 4,500 acre property featuring some of the world's most picturesque scenery. In its midst lie 400 acres of premium sun-soaked vineyard.

Because we understand that good earth is the starting point for most of nature's bounty, we are working with like minded organizations to ensure this natural haven which surrounds the vineyards of Banrock Station is preserved for future generations to appreciate and enjoy. Every sip of Banrock Station fine wine gives a little back to the good earth from whence it came.

Banrock Station: Good Earth, Fine Wine

Source: Company documents