



Penfolds

THE MARKET

Australian winemaker Penfolds is a leader in both domestic and export markets. The company produces more than one million cases of premium wine each year, and markets successfully in Australasia, the UK, continental Europe, the USA, Canada, and Scandinavia. Penfolds' parent company, Southcorp Wines, is Australia's largest wine company and largest wine exporter.

According to industry figures, the core wine market in Australia consists of people aged between 30 and 49, with nearly 30% of females drinking wine on a regular basis compared to 22% of males. Since the late 1930s, Australia's average wine consumption has increased almost sevenfold. Until the late 1950s Australians - when they drank wine at all - drank fortified wines such as sherry and port. Table wine accounted for less than 5% of the total market. Today table wine accounts for 95% of the Australian market with fortified wine taking only the remaining 5%.

This shift away from fortified wine gathered strength in the 1960s as more Australians travelled overseas, more European migrants arrived (bringing with them an established taste for wine) and technological advances were achieved in winemaking.

According to the Australian Bureau of Statistics, Australians consumed more than 83 million litres of bottled wine in 1994-95, which saw the category grow 9.1%. In contrast, sales of soft packs (casks) dropped 3.5% in the same period. Australians are drinking less, but drinking better.

Per capita expenditure on wine has also increased. The average Australian household spends an average of A\$3.67 per week on wine, a rise of 22% since 1988-89. This compares with a 5% fall over the same period in money spent on beer.

Changes in consumer preference in table wine have emerged. There was a red wine boom in the 1960s, followed in the 1970s by an extraordinary white wine boom that saw consumption take a quantum leap forward as women 'discovered' wine. Since the mid 80s, however, red wine sales have increased dramatically again (by 72%) closing the gap between red and white.

Australian wine exports have enjoyed a 27% growth rate each year for the last decade - from \$21 million in 1985-86 to \$474 million in 1995-96. Extensive new vineyard plantings in various parts of Australia are beginning to bear fruit and exports are



Christopher Rawson Penfold



expected to continue to climb for the next 20-25 years.

ACHIEVEMENTS

Penfolds' achievements of the past half century owe much to the work of the great winemaker Max Schubert, who died in 1994 at the age of 79 after a 63-year career with Penfolds, interrupted only by war service.

By the 1940s Schubert was already a great innovator in the making and handling of fortified wines, but he came into his own after an inspirational visit to Bordeaux in 1950. The following year he made the first experimental vintage of Grange Hermitage, modelled on wines he had experienced during his trip to Bordeaux - using Shiraz rather than Cabernet Sauvignon and American rather than French oak. The use of new oak barrels, with their aggressive flavour, and a crude form of refrigeration to control the rate of fermentation, were revolutionary in Australia at the time.

Unfortunately, when Schubert unveiled his first Granges in 1955 they were not appreciated. It was not until the early 1960s, when the first Granges had almost a decade of bottle age, that the quality of the wine was recognised and its style understood. Today virtually all premium red wines in Australia are made using Schubert's methods and Grange is universally recognised as Australia's finest wine.

Schubert also developed the 'Bin range' family of red wines - 128, 28, 389 and 707 - which sustain the brand to this day. These wines were the results of Schubert's constant experimentation. Some of his one-off experiments have legendary status, the best known being 1962 Bin 60A, a blend of Coonawarra Cabernet and Barossa Shiraz that is considered possibly the finest red wine ever made in Australia.

Although Grange has not been entered in shows since the early 1980s, it remains the best-performing Australian red table wine of all time, with vintages from 1955 to 1977 winning 28 trophies, 126 gold, 74 silver and 42 bronze medals. Grange has also twice won the coveted Jimmy Watson Trophy, with the 1965 and 1967 vintages. The prize is awarded to the best one-year-old red at the Melbourne Wine Show. In 1995, the 1990 vintage Penfolds Grange catapulted the Australian wine industry into the international spotlight when it became the first Australian wine to be named Wine of the Year by leading US wine magazine Wine Spectator. Grange remains the only wine from outside California or France to take the award.

Penfolds' flagship Cabernet Sauvignon, Bin 707 is - vintage after vintage - among the most consistent trophy and gold medal winners in both Australian and international wine shows.

HISTORY

Penfolds was founded in 1844 when Dr Christopher Rawson Penfold, an immigrant from England, settled at Magill, in Adelaide, with his wife Mary and their young daughter, Georgina.

Dr Penfold, who had a firm belief in the medicinal value of wine, established a vineyard surrounding his home, a modest stone cottage which he built in 1845. The couple called this house The Grange, after Mary's home in England. Dr Penfold expanded the vineyard until, in the

1850s, wine took over from medicine as the family's chief source of income.

Dr Penfold died at Magill in March 1870, leaving a rapidly growing wine business under the control of his wife and son-in-law, Thomas Hyland. In that year the area under vines at Magill had grown to 60 acres, or about 25 hectares.

Mary Penfold died in 1895 and her grandsons, Frank and Leslie Penfold Hyland, guided Penfolds through the first 40 years of the new century. Three generations of the Penfold-Hyland family owned and ran the company until it was publicly listed in 1962. The family lost control following a takeover in 1976.

Winemaking operations are now based at



Nuriootpa in the Barossa Valley but Penfolds' spiritual home remains at Magill. The Magill site was extensively refurbished in 1994/95 as part of the celebrations of the 150th anniversary of the founding of the company. The five-hectare 1844 home vineyard remains, surrounding the original Grange cottage.

THE PRODUCT

The current Australian Penfolds portfolio consists of 31 wines: 12 red, 11 white and eight fortified. No sparkling wines are produced under the Penfolds label. As is usual with premium wines, a new vintage of each of the 25 red and white table wines is released each year.

The Penfolds table wine range covers virtually every price point, from the flagship Grange at \$200 a bottle (or more) to the everyday drinking Rawson's Retreat red and white at less than \$10 a bottle.

Quantities produced vary widely, from around 1000 dozen for special experimental wines, 3000-10,000 dozen for most premium wines, to 150,000-200,000 dozen for widely available commercial wines.

In both red and white wines, Penfolds' present day reputation rests on its skills in blending grapes from different vineyards and/or different regions in South Australia to make wines that are consistent in style from vintage to vintage. One result of this policy is the quite dramatic variation in the quantities of wine made each year under the same label. In fact, in some years (1981 and 1995 are examples) a super-premium wine such as Bin 707 will simply not be made if grapes of the required style or quality are not available.

Penfolds today has large stocks of blending wines totalling millions of litres which support a range of ports. These include Club, which at under \$10 is Australia's largest-selling bottled fortified wine, to Grandfather, a super-premium wine priced at \$70-\$80 a bottle and arguably Australia's finest liqueur-style port.

RECENT DEVELOPMENTS

A decade is a short time in the wine industry and the major developments for the brand since the mid-1980s include:

The 1986 launch of Magill Estate Shiraz, made from grapes grown on the vineyard established by Dr Christopher Rawson Penfold in 1844. This is a single-vineyard 'estate' wine, in contrast to most other Penfolds wines.

The 1987 launch of the Clare Estate range, a red blend and a Chardonnay, from Penfolds own vineyard in the Clare Valley, north of the Barossa. Again, these are single-region estate wines.

A strengthened focus on Cabernet Sauvignon, with a stricter grape selection policy for flagship Cabernet Bin 707 and the launch of Bin 407 Cabernet Sauvignon, a more affordable 'little brother' to Bin 707, in March 1993.

'Reinvention' of Penfolds' white wine portfolio over the past five years with the development of a more consumer-friendly range - a reduced emphasis on oak, new names and new labels.



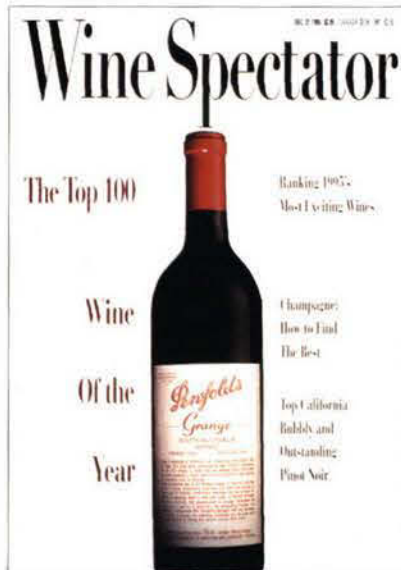
A continuing premium white wine development program that began in 1992 and will see the launch in mid 1997 of two wines sourced in the Adelaide Hills, a Chardonnay and a Semillon from the 1995 vintage, and the later launch of a flagship white wine.

The 1993/94 UK and US launches of Penfolds wines made using organically grown grapes from sections of the Clare Estate vineyards.

The extremely successful 1995 launch of the Rawson's Retreat red and white to take over from Koonunga Hill as 'entry-level' Penfolds wines.

The launch in April 1995 of the Penfolds Old Vine red, a blend of Barossa Valley Grenache, Shiraz and Mourvèdre that reflects growing interest in Rhône-style reds.

The change of the 'Grange Hermitage' name to 'Grange', ending the possibility of any confusion in overseas markets with the famous Hermitage vineyard in France's Rhône Valley.



PROMOTION

While Penfolds has made use of every available advertising medium at various times in its history, the promotion of the brand today is almost entirely driven by public relations activities.

Other significant factors are point-of-sale and trade promotion, the growing use of an internet website (www.penfolds.com.au), and inclusion in retailers' advertising campaigns and in catalogues produced by both retail and direct marketers.

Independent, 'third party' endorsements are crucial to

the successful marketing of premium wine. The two key planks in Penfolds' promotional strategy are the biennial Red Wine Recorking Clinic program and The Rewards of Patience, a detailed tasting and informational guide to Penfolds wines first published in 1986 and now in its third edition.

The 150th anniversary of the founding of Penfolds in 1994 also presented significant, far-reaching PR opportunities. Penfolds commissioned a biography of Max Schubert by the leading wine writer Huon Hooke and has established the Magill Estate vineyard and winery as a heritage site of enormous significance to the history of Australian wine industry.

BRAND VALUES

The key value attached to the Penfolds brand name is quality. The others are consistency, tradition and pedigree.

As production has increased in attempts to meet growing demand in both domestic and international markets, Penfolds' 'no compromise' policy has continued. It is a source of pride to the winemaking team that independent observers agree that the quality of Penfolds wines has, if anything, actually improved in recent years, even as the quantities produced have increased.

As for consistency, tradition and pedigree, Penfolds has only had three Chief Winemakers over the past half century, and this has led to a clear and consistent approach to each individual wine style. Winemakers blend material from different vineyards and regions in South Australia in order to maintain consistency of style at the expense of vintage variation.

Things you didn't know about Penfolds

- The great Penfolds winemaker Max Schubert went to Spain in 1950 to study sherry making. He also went to Bordeaux and was there impressed by the great old clarets he tasted. The result? Grange Hermitage.
- Grange is the most awarded Australian red table wine of all time, with vintages from 1955 to 1977 winning 28 trophies, 126 gold, 74 silver and 42 bronze medals in Australian wine shows.
- Max Schubert made 150 dozen Grange in 1951 as an experiment. In 1996 a bottle of 1951 Grange sold for \$17,600, an Australian record. A complete set of Grange vintages is worth upwards of \$80,000.