Columbia Business School
AT THE VERY CENTER OF BUSINESS™

Columbia CaseWorks

ID#100511

PUBLISHED ON
OCTOBER 28, 2013

Yellow Tail Wines
Breakaway Product Positioning

BY LEN SHERMAN*

Introduction[1]

On a rainy afternoon in early December 2000, Bill Deutsch, founder and CEO of W. J. Deutsch & Sons (WJD), and his son Peter, president of the New York–based wine distributor, sat in the conference room of their White Plains, New York, office with two representatives of Casella Wines from New South Wales, Australia. Casella's General Manager John Soutter and company President John Casella had traveled to New York to hand deliver a sample of Casella's newest wine creations—a Shiraz and Chardonnay—the company had developed over the past year at their vineyards in southeastern Australia.

Casella was seeking U.S. distribution for its newest wines and Deutsch was looking to add relatively low priced "fighting varietals" from Australia to compete with U.S. market leaders in this category from California, Italy, and Chile.

In the weeks leading up to the meeting, Casella telephoned the Deutsches to express enthusiasm for the vineyard's creations, describing their fresh new "fruit forward" taste and expected costs that would allow the wines to sell at an attractive price in the U.S. market. But wine needs to be experienced firsthand, and Casella and his colleague now waited anxiously for a reaction from their U.S. hosts.

Bill and Peter Deutsch swirled the Shiraz in their tasting glass before taking their first sip of Yellow Tail wine. Both paused and contemplatively sipped again. "Very distinctive… I like it!" Peter Deutsch expressed with enthusiasm.

They repeated the process with the Chardonnay.

Author affiliation
*Adjunct Professor of Marketing, Columbia Business School

Acknowledgements
I would like to thank Bill Deutsch, founder and CEO of W.J. Deutsch & Sons, for his help in the preparation of this case. This case could not have been developed without his generous support.

"I think we think we can sell these wines!" enthused Bill Deutsch, drawing on his 40 years of experience in the wine industry. "We might be able to move 25,000 cases this year if things go well," he added, in what turned out to be a wonderfully inaccurate forecast.

Thus began the launch of Yellow Tail wines.

Structure of the U.S. Wine Industry

In 2000, the $20 billion U.S. wine market could be characterized as relatively slow growing, intensely competitive, fragmented, highly regulated, and subject to global over-capacity and growing import competition. Over 6,500 brands competed for distributor, retailer, and consumer attention in a country that consumed 10 times more beer than wine and where three-quarters of American adults never purchased the product.[2] Not surprisingly, in this environment, few new entries made a dent in the market, and profitability proved elusive for most vineyards.

THE ORIGINS OF WINE THAT SHAPE CURRENT BUSINESS PRACTICES[3]

Archaeologists trace the origin of wine back 7,000 years—to the Stone Ages in what is now Iran. By the third century, Egyptian pharaohs were keeping accurate records of wine vintage and quality, labeling each jar, amassing large cellars, and establishing many of the craftsmanship techniques still in use today. From its earliest history, wine served as a marker of cultural advancement, as oenology techniques were refined by succeeding generations of ruling societies. The Greeks brought wine into continental Europe, which took further hold under the Roman Empire.

By the 13th century, France became the reigning wine region of Europe, exploiting its favored climate, soil, and know-how. As winemaking became more sophisticated, laws were passed dictating which wines could be sold under premium labels versus table wine, how the label must be presented, how the wine must be aged, and the rules about use of appellations, domains, and grape varietals that still exist today by statute or custom (see Exhibit 1).

Increasingly sophisticated winemakers continued to move up-market. To distinguish their product, vineyards focused on the special qualities of the land and climate—the "terroir"—from which their grapes originated. The nobility of the land and, by association, the status of the winemaker became a central focus of product differentiation. If a vineyard did not have a noble lineage, it wasn't uncommon to invent one. Labels on premium wines were commonly adorned with pictures of chateaus even if there was no French castle on the vineyard's property—a practice that continues to this day (see Exhibit 2).

In the United Sates, wine production can be traced back to Spanish missionaries who adapted European techniques to plant sacramental wines in North America in the 1600s. By the mid-1800s, winemaking became a secular activity, with vineyards spreading eventually to every state in the union. The U.S .wine industry grew steadily and by the turn of the 21st century became the fourth-largest wine producer in the world and a $20 billion consumption market.

While Europe continued to lead the world in wine consumption and production, a number of southern hemisphere countries with favorable wine growing climates— notably Argentina, South Africa, Australia and Chile—were enjoying rapid growth in wine production and exports, fueled in part by the growing popularity of "fighting varietals."—relatively low-priced, single-grape wines in .75 or 1.5 liter bottles (see Exhibit 3).

U.S. MARKET CONSUMPTION PATTERNS IN 2000

Americans drank relatively little wine in 2000, on average about one bottle per adult per month, roughly one-tenth the per capita consumption of France or Italy. Furthermore, U.S. wine consumption was driven primarily by a small segment of committed wine enthusiasts. As noted in Exhibit 4, three-fourths of American adults did not consume any wine, while core wine drinkers, representing only 10% of U.S. adults, accounted for 86% of total consumption.

One reason for the lack of widespread consumer appeal is the inherent complexity of wine. With dozens of grape varietals, hundreds of geographic production regions—each claiming a superior taste advantage—and thousands of brands, ranging in price from "Two Buck Chuck" to $2,000 for a premium vintage Chateau Lafite Rothschild, it was not surprising that many consumers found wine confusing if not downright intimidating. According to a survey of U.S. wine drinkers conducted for Canyon Road Winery in 2002, more than 80% of wine drinkers felt their knowledge of wine was average or below. The survey also found that 40% of wine drinkers became overwhelmed by the selection and 34% did not recognize the names of wines, leading them to hesitate in choosing a wine.[4]

Many potential wine drinkers were presumably deterred by the perceived complexity of the product, but the industry had traditionally ignored this sizeable group. According to James T. Lapsley, a widely recognized wine expert,

> So 35% of the population drinks alcoholic beverages but they don't drink wine. They've tried it; they don't like it. We don't interview them much because they've said they don't like wine so we're not going to find out about wine. Can those people be moved over? Who knows? But probably not.[5]

Widely accepted business practices passed down through generations unwittingly contributed to U.S. consumer uneasiness toward wine:

- Old world wines offer a sophisticated, acquired, complex taste that many first-time or casual wine drinkers often find unappealing.
- Many premium wines are designed and intended to be bottle aged after purchase for special occasions, rather than sold for everyday casual consumption.
- Increasing brand variety overwhelms even wine connoisseurs. For example, there are over 13,000 distinct wine SKUs currently sold in U.S. supermarkets. A well-stocked wine store is likely to carry over 1,000 separate brands, many with labels in foreign languages and/or with idiosyncratic product descriptors.

- Naming conventions are often confusing, as countries use different names for similar wines (e.g., Burgundy and Pinot Noir are from the same grape, as are Côte-Rôtie, Syrah, and Shiraz).
- Merchandising practices compound the confusion, as stores frequently organize wine displays by country of origin, rather than by varietal, making comparative shopping more difficult and confusing.[6]
- On a dollar-per-drink basis, wine tends to be expensive relative to beer or spirits.

Nonetheless, the U.S. wine industry continued to grow slowly through the 1990s (see Exhibit 5), aided in part by a growing belief that wine had salutary health benefits. In 1991, *60 Minutes* broadcast a segment on "the French Paradox" noting that people in France enjoyed a relatively low incidence of coronary heart disease despite a diet high in saturated fats. Citing the work of Dr. Serge Renaud, a scientist from Bordeaux University, *60 Minutes* reported that France's high consumption of red wines helped reduce the incidence of heart disease. Over the balance of the decade, the popularity of wine grew at the expense of beer and distilled spirits (see Exhibit 6).

The U.S. wine market in 2000 consisted of four major product segments differentiated by price and perceived product quality (see Exhibit 7). Although budget wines remained the largest segment by consumption volume through much of the 1990s, higher price points and the growing popularity of premium wines generated increasingly higher revenue shares in premium segments (see Exhibit 8).

Americans were also showing a greater taste for imported wines in the 1990s. Import sales doubled over the second half of the decade, accounting for about 20% of U.S. consumption by 2000. Leading import growth were "fighting varietals"—relatively low priced, single grape wines—most notably from Italy, Australia, Chile, and other southern hemisphere producers. Vineyards from the southern hemisphere tripled their share of U.S. imports in the 1990s, reaching over one-fourth of all imports by 2000. Western European competitors, principally France and Italy, lost U.S. import share, sliding from nearly 90% at the start of the decade to around 70% in 2000.

SUPPLY SIDE CHARACTERISTICS

The worldwide supply of wine expanded rapidly in the 1990s.

In the United States, the dotcom boom spawned a surge of new vineyards anticipating growth in wine consumption. Between 1995 and 2000, over 1,000 new wineries started production, an increase of 60%. During the 1990s, domestic production of Chardonnay and Cabernet Sauvignon grapes doubled and Merlot tripled.

At the same time, old-world European winemakers stepped up their efforts to export to the United States to offset declines in their domestic consumption. Per capita consumption in France and Italy were experiencing near double-digit percentage declines in the late 1990s, just as U.S. consumers were showing an increasing taste for premium and import wines. Winemakers in the southern hemisphere also ramped up wine production in this era, seeking growth opportunities in the United States and Europe to supplement their small and/or declining home market consumption.

The net result was a prolonged global oversupply of wine that ranged from 15% to over 20% throughout the late 1990s into 2000 (see Exhibit 9). These dynamics intensified price competition across all segments, pressuring margins particularly among small and mid-sized vineyards with subscale production. Moreover, smaller vineyards faced increasing difficulty getting their wine to market, as distributors sought to concentrate more of their purchases from large-scale, full-line vineyards to exploit distribution economies of scale.

Small vineyards reacted by focusing on particular varietals, selling primarily to specialized wine shops, restaurants, and increasingly direct-to-consumers through wine clubs, local tasting rooms, and via the Internet where legal. Midsize vineyards were particularly threatened by adverse market and competitive trends, precipitating a wave of acquisitions and consolidation throughout the industry. For example, in 2000, Fosters acquired Beringer Wines for $1.5 billion and The Wine Group acquired two Sebastiani labels for $300 million, as large companies sought to shore up their portfolios of brands selling in the increasingly popular premium segments.

As a result, despite the rapidly growing number of vineyards selling in the U.S. market through the 1990s, sales were becoming increasingly concentrated among the largest, acquisition-driven wine companies. As shown in Exhibit 10, by 2000, the five largest wine companies accounted for 50% of wine volume sold in the U.S .market with the remaining half split between thousands of smaller vineyards.

In this environment, smaller vineyards sought to remain profitable by staying within niche markets rather than competing head on with major wineries. As one wine industry analyst advised vineyards at the time, “stay small or perish.”[7]

DISTRIBUTION CHARACTERISTICS

Wine reaches the end consumer through a three or four-step distribution process, depending on whether the grape is grown domestically or overseas. As shown in Exhibit 11, imported wines typically go from a vineyard through a U.S. importer to a U.S. distributor before reaching a wine retail or restaurant establishment for sale to the end consumer. Given the selling, general, and administrative activities, including shipping, warehousing, and inventory carrying costs along the chain, the markup on a low-end premium wine from vineyard to retail selling price was typically 3:1 or higher.

As wine production has become more concentrated, a simultaneous consolidation of retailers and distributors was also taking place across the United States. The number of distributors had fallen considerably from nearly 5,000 in the 1950s to approximately 250 by 2000. On average, there were only two major distributors per state. Reflecting this increasing concentration, the 20 largest distributors controlled 70% of U.S. wine sales volume by the early 2000s.

At the same time, the food retail sector was becoming increasingly concentrated, with the top 10 supermarkets and discounters (e.g., Wal-Mart, Sam’s Club) accounting for 55% of U.S.

wine sales by 2000. Costco became the top selling retail outlet for wine sales, followed by Target, Sam's Club, and Wal-Mart (see Exhibit 12).

Consolidation within the supermarket and general merchandise sector in turn changed the dynamics of wine retailing in the United States. Thousands of domestic and international brands found themselves vying for space on the shelves of these fewer, larger, and more powerful retailers, which, in turn, were increasingly controlled by oligopolistic regional distributors. As a result, the bargaining power of distributors and retailers against winemakers rose substantially in the 1990s and beyond.

A key objective for distributors and retailers is to improve their asset turnover and distribution/selling economies of scale. A case of wine costs the same to ship and consumes the same amount of retail shelf space, regardless of type or price. Wine inventory turnover is notoriously slow (averaging 2.4 times/year) relative to distilled liquor (50X) and beer (70X). Since profitability is driven by products that replenish quickly, distributors increasingly looked to source inventory from large, full-line vineyards with the capacity and marketing support capabilities to move high volume. Distributor consolidation thus made it increasingly difficult for smaller wine producers to get their product onto retailers' shelves.

In the early 2000s, thousands of brands from domestic and import vineyards competed in the U.S. market. Only 5% of these wine brands sold more than 100,000 cases, and only 23 wine brands sold at least 2 million cases each, accounting for 40% of the overall U.S. wine sales.

Casella Wines/W.J. Deutsch & Sons Partnership

Australian wine producers were beginning to make significant inroads in the U.S. market in the late 1990s.

The U.S .and Australian wine markets shared two similarities as they entered the new millennium. First, like America, Australia was not known as a wine-drinking country. Historically, per capita consumption of beer in Australia outpaced wine by roughly eight to one. Yet a favorable climate and low vineyard land costs made Australia an ideal base from which to pursue export markets. As a result, the number of Australian wineries grew rapidly from about 300 in 1980 to over 1,000 in 2000.

Second, like the United States, wine production in Australia was highly fragmented and concentrated. The "Big Four" Australian wine producers—Southcorp, BRL Hardy, Orlando Wyndham, and Beringer Blass—controlled 85% of Australia's wine exports. Another 20 wine producers controlled 10% of exports, and the remaining 1,000 producers largely produced for limited, domestic consumption. This concentration posed challenges for aspiring Australian exporters, as they could not compete effectively with the scale economies, distribution channel clout, and marketing budgets of the Australian Big Four.

Casella Wines had been founded in 1969 by Filippo Casella, a Sicilian immigrant from an Italian winemaking family who arrived in Australia in the 1950s. Casella started as an itinerant farmhand until saving enough to buy a 40-acre plot of vineyard land in New South Wales, selling his wine and grapes in bulk to other name-brand vineyards.

In 1994, the founder's oldest son John took over the business after studying oenology at college and working for another Australian winemaker. Seeking to grow his father's operations, Casella hired an experienced wine executive from an export-oriented competitor to lead the expansion effort. The new General Manager, John Soutter, sought new markets, particularly in the United States. But as a small and unproven Australian vineyard without an established label seeking to sell in the intensely competitive super premium segment, Casella was shunned by U.S. importers and distributors. Casella turned to the Australian Trade Commission to help him find an American distribution partner.

About the same time, about 12,000 miles away in White Plains, New York, Bill Deutsch, founder and CEO of W.J. Deutsch & Sons (WJD), was looking to expand his U.S .wine import business. Deutsch marketed a variety of mostly French wines in the U.S., most notably Georges Duboeuf, a prominent producer of Beaujolais. After enjoying considerable success during the 1980s and early 1990s, Beaujolais sales growth in the United States flattened as American consumers' interest began to wane for French wines in general.

Deutsch saw an opportunity and need to introduce a "fighting varietal" brand from Australia to take up the slack and contacted the Australian Trade Commission seeking suggestions for a suitable vineyard partner. Deutsch's inquiry came within days of Casella's similar request and the connection was made. Meeting for the first time at a trade show in San Francisco in 1997, Deutsch and Casella agreed to team up. "It was a perfect match, Deutsch recalled. "Two smallish, family-owned businesses looking for growth opportunities. I had a hunch it would work out." They agreed that in exchange for half-ownership of the label, the Deutsch company would market Casella's wines in the United States. Shortly thereafter, Casella and Deutsch launched a line of wines in the U.S. under the Carramar Estate label.

At the time, Deutsch was importing approximately about 300,000 cases of mostly French wine, distributed in over 40 states through relationships WJD had built with dozens of distributors across the United States. "It is very difficult to launch a new product in a consolidating marketplace, recounted Peter Deutsch. "A lot of people don't want to put the time and effort into building something from scratch, but we were lucky to have really strong relationships with our distributors."[8] As such, Deutsch offered Casella coveted access to the U.S. market.

The Carramar Estate line, introduced in 1999, turned out to be disappointing. Casella initially followed conventional wisdom by naming its wine after a local landmark (in this case an aboriginal vineyard site) to provide the brand with a sense of "terroir" and history: *Carramar* means "by shady tree" and *Estate* means place of stature. Carramar was priced at $9.99 for a 750 ml bottle, in the heart of the super premium category and featuring attributes not unlike hundreds of other wines in this intensely competitive segment.

Given its "me-too" positioning and taste which did not over-deliver for its price point, Carramar achieved only modest success, selling 20,000 cases in its first year. Shortly thereafter, the wine faced a setback as reports began surfacing that consumers were returning Carramar Estate bottles to their retailer for a refund, complaining the wine was "corked."[9] Casella discovered they had inadvertently shipped Carramar Estate wines to the United States with a batch of tainted corks from a supplier. "John Casella was mortified by this incident," recalled Deutsch. "He gave me his assurance to buy back all unsold bottles and offered to withdraw from our partnership. I reminded him," Deutsch went on, "that I was committed to a long term partnership and encouraged Casella to come back with an even better wine."

The disappointing Carramar launch proved to be the catalyst that drove Casella to rethink his underlying assumptions of how to compete in the U.S. wine market.

The Launch of Yellow Tail

As Soutter and Casella contemplated how to make a new wine that would be more distinctive in the crowded US market, they spotted an opportunity to create a wine with a lighter New World taste at lower cost to appeal to a broader market than their prior Carramar Estate entry.

Many American wine connoisseurs showed a marked preference for Old World (notably French) wines with an earthy, vanilla flavor released by oak barrel aging. Unfortunately, barrel aging is expensive. Oak barrels lose their potency over time (not unlike tea bags), and the need for frequent replacement adds to the fixed cost of wine production. Moreover, aging wines for many months or years ties up working capital and increases market forecast errors and inventory obsolescence risk. For example, barrel aging a Cabernet Sauvignon wine for two to three years can add $5 or more to the retail price of the wine.

New World wines from southern hemisphere countries typically utilized a less expensive oak chip winemaking process, but the resulting products were often too fruity or sweet to appeal to core wine consumers. At the same time, many New World winemakers (including Carramar Estate from Casella Wines) were pricing their .75 liter wines at $9 to $10 at retail – too expensive to appeal to price sensitive budget wine consumers. Thus a price gap in the $6 to $7 range existed between low-end premium wines and un-aged cheap jug wine.

Casella saw the opportunity to create an approachable, everyday wine that over-delivered on taste relative to its price, appealing not only to current wine drinkers but also to the far larger number of *non*-consumers who previously shunned wine because they didn't like the taste, price, or complexity of traditional wines.

Deutsch, the U.S .distributor, was immediately enthusiastic, noting "it was delicious . . . an easygoing wine, uncomplicated and fun to drink." Echoing those sentiments, years later Jon Fedrikson, publisher of an influential California wine industry newsletter, commented that Yellow Tail turned out to be "the perfect wine for a public grown up on soft drinks."[10]

For brand imagery, Soutter and Casella turned to a graphic artist in Adelaide who offered Casella a design of a black and yellow rendering of a rock wallaby, a smaller cousin to the kangaroo, evocative of Australian aboriginal art. The yellow-tailed image was seen as friendly and readily identifiable with Australian culture. Casella paid less than $5,000 for the design, which served to anchor the development of a marketing program and image campaign for the new wine (see Exhibit 13).

As for the brackets used to depict the [yellow tail] brand name, the story is that the Casellas were looking up "kangaroo" in a textbook when they came across the definition of a wallaby. In the margin, alongside the Latin derivation of the name was the Australian version, in brackets: [yellow tail]. They decided to keep the brackets "to set the wine apart" and to use the lower case spelling "to underscore the wine's lack of pretension," recalled Soutter.[11]

To reinforce the approachability of its wines, Soutter and Casella decided to shun standard industry practices regarding packaging and labeling wines that had been widely accepted for literally thousands of years. First, unlike virtually any premium wine competitor, they used the same Bordeaux-style bottle shape for both their red (Shiraz) and white (Chardonnay) wines. And second, they avoided any use of or oenological terminology or ebullient descriptions of terroir on the front or back of the bottle.

For example, a premium French wine might carry the following description on the back of its bottle:

> Chateau de Fontenille is a splendid property situated in the middle of 65 hectacres of which 40 hectares are planted with vines near the ancient Abbey of La Sauve Majeure. Aged for 18 months – 50% in oak barrels and 50% aged in vat. A very harmonious wine with rich red fruit aromas and silky tannins. Can be kept under good conditions for 5 to 7 years.

Or it may carry the following:

> Chateau D'Arcins Haut Medoc has a dark garnet color, toasted nose with hints of black fruits, prunes, raspberries and liquourice. Well balanced. Fine and ripe tannins leaving a lingering finish.

In contrast, the description on the back of a bottle of Yellow Tail Merlot read:

> For 3 generations, the Casella family has been making wine at their winery in the small town of Yenda in South Eastern Australia. It is here that [yellow tail] is created with a simple purpose in mind: to make a great wine that everyone can enjoy. [yellow tail] is everything a great wine should be It's approachable, fresh, flavorsome and has a personality all of its own.[12]

As Soutter explained:

> We said right from the beginning that we were unpretentious. Heck, we had a kangaroo on the label. We used bright colors. When you turn around and

> read the back, the label in no way talks about where the wine comes from, or what the oak barrel maturation was.[13]

Deutsch was somewhat apprehensive about the unusual bottle and label designs when he first agreed to import the new wines to the United States. Using animals and bright colors on wine bottles just was not done at that time. Nonetheless, he liked the wine and agreed to take 25,000 cases.

Peter Deutsch was far more enthusiastic about the branding. “That label is fabulous,” he told his father. “OK,” said the elder Deutsch hesitantly. “Maybe we can move 60,000 cases.”[14]

Encouraged by the support from their U.S. partner, Casella and Soutter returned to Australia to gear up production of Yellow Tail Chardonnay and Shiraz. Given the past disappointment with Carramar Estate and the uncertainty about consumer reaction to an unproven new brand with a whimsical label, Casella and Deutsch decided not to invest in above-the-line advertising to support the launch. Rather they focused exclusively on point-of-sale promotion.

Casella and WJD attempted to tap into Australia’s image of fun and adventure, for example, providing wine store clerks—many with little wine selling experience or knowledge of Australia—with indigenous bushman’s hats and oilskin jackets to wear at work.[15] Even wine delivery truck drivers were selectively adorned with the stylish Australian clothing, inspiring sales clerks to identify with and hopefully recommend Yellow Tail (see Exhibit 14).

To stimulate impulse purchase interest, Deutsch and Casella also designed colorful end cap displays to set it apart from the competing brands stacked up on wine store and supermarket shelves (see Exhibit 15).

Casella and WJD kept the product line simple and attractively priced. At launch, there were only four SKUs: two varietals—Shiraz and Chardonnay—in two bottle sizes, .75 and 1.5 liters. Introductory pricing was highly competitive: $5-$6 for the .75 liter wines and $10-$11 for the 1.5 liter bottles, placing Yellow Tail within the popular premium category despite a taste and palette that compared favorably with wines costing considerably more. As the widely regarded wine critic Robert M. Parker noted, “In some circles it is fashionable to criticize wine of this genre, but if the truth be known, these are surprisingly well made offerings.”[16]

Yellow Tail wines were an instant hit in the U.S. market. Within its first six months on the market, sales exceeded 225,000 cases, nearly 10 times Deutsch’s initial estimate of Yellow Tail’s market potential. The first batches sold out so quickly that extra wine bottles had to be shipped by plane at considerable expense. Demand quickly outstripped Casella vineyard capacity and additional grapes had to be bought on the bulk market, temporarily cutting into Casella’s thin margins.

By 2002, after only one year on the market, sales jumped to 1.2 million cases, becoming the number two Australian wine in the United States. By 2006, sales topped 8 million cases, reflecting a compound annual growth rate of over 120% since launch, equivalent in volume to Yellow Tail's next five top Australian competitors combined (see Exhibit 16). To put these sales results in perspective:

- By 2003, Yellow Tail became the number one imported wine in the U.S. market.
- By 2005, Yellow Tail became the number one brand (imported *or* domestic) by dollar volume, surpassing popular and more expensive domestic brands, including Kendall Jackson and Beringer.
- Casella's sales of 8.1 million cases of Yellow Tail in 2006 represented over 70% of the total number of cases of wine imported from *all* French producers.
- Over its first five years, Yellow Tail became the fastest growing wine brand ever sold in the U.S. market.

Competitive Response

Competitors responded aggressively to Yellow Tail's success. Believing the colorful marsupial was key to Yellow Tail's success, many of the world's largest (and smallest) wine producers responded with hundreds of imitation "critter brands," sporting a wide variety of animals on their labels. Porcupine Ridge, A Donkey and Goat, Little Penguin, Smoking Loon, and scores of other dogs, wallabies, platypuses, cats, and other pouched and un-pouched animals appeared on wine labels across America. According to ACNielsen, from 2003–2006, nearly one in five of the new wines introduced into the U.S. wine market featured an animal on the label, yet none captured consumer interest as had Yellow Tail.

Sizing up his competition in 2006, Deutsch noted, "Stores are beginning to look more like zoos than wine retailers." He added, "The wine cemetery is beginning to fill up with animal labels that thought they could emulate Yellow Tail, but they missed it completely in price, positioning and taste and many of these wines are now being closed out or dumped; they will be gone in 30 to 60 days."

Keeping the Momentum Going

In the years following the launch of Yellow Tail, Casella Wines and WJD raced to keep up with rapid demand growth. By 2003, the Yellow Tail brand accounted for nearly the entire the growth of wine sales in U.S. grocery stores nationwide over the preceding year (see Exhibit 17). Although the speed with which American consumers embraced Yellow Tail surprised Casella and Deutsch, the two partners did not hesitate to invest aggressively to keep up with burgeoning demand. Casella Wines added 30 million liters of winemaking production capacity within three years of the Yellow Tail launch (see Exhibit 18), whereas WJD more than doubled its sales force over the same timeframe to promote national distribution.

Where were Yellow Tail customers coming from? As shown in Exhibit 19, in 2003, over one-fourth of Yellow Tail consumers were first-time wine drinkers—either "category expansion" converts from other alcoholic beverages (mostly beer) or "new buyers" to the alcoholic beverage category.

Purchase patterns also suggested that wine drinkers who shifted from other brands consumed Yellow Tail more intensively. According to an ACNielson wine purchase tracking study[17]:

- Yellow Tail's percent repeat purchasing hovers around 40% while most 750 ml/1.5 L brands in its price category are between 22% and 34%.
- By the end of 2003, volume from repeat purchasing accounted for 70% of Yellow Tail's cumulative volume.
- Average repeat purchase size is more than three .75 liter bottle equivalents, which is more than 50% higher than competing brands.
- Average number of repeat purchase occasions increased from 2.4 to 3.8 during 2003.
- Depth of repeat purchase increased substantially in 2003, with 10% of all product tryers making at least six repeat purchases and 5% making at least nine repeat purchases by the end of the year.

In summary, an increasing number of loyal Yellow Tail buyers including many recent wine converts bought more wine, more often than competing brands. Casella's vision to create a wine for everyday enjoyment rather than as a special occasion luxury appeared to gain acceptance in the marketplace.

Despite its early success, Casella and Deutsch recognized the need to enhance the Yellow Tail brand to maintain momentum in the marketplace. Starting in 2002, Casella introduced additional low-priced varietals with the launch of a Merlot. Over the next seven years, Yellow Tail expanded to 12 wines, all identically priced under $7 per bottle, including Cabernet Sauvignon, Pinot Noir, Pinot Grigio, Suavignon Blanc, and other popular varietals, becoming one of the broadest range wine brands sold in the U.S. market. Although the original Shiraz and Chardonnay remained Yellow Tail's most popular wines, by 2009, the new varietals accounted for over half (54%) of the brand's total sales.

To offer even broader choice to Yellow Tail customers looking for a more refined taste, the company introduced a Reserve Shiraz in 2004, followed by a Reserve Cabernet, Merlot, Chardonnay, and Pinot Grigio in 2007, all priced at $11.99 per bottle at retail. Rounding out its product lineup, Yellow Tail introduced a $10.99 Sparkling Rosé and Sparkling White in 2009. The sparkling white was re-launched in 2010 with a whimsical name – "Bubbles" – and a more distinctive bottle design.

To promote its expanded product lineup and to strengthen the brand against increasing competition, Yellow Tail initiated brand advertising in 2004. The intent of the marketing campaign was to:

- Continue to manage Yellow Tail's brand image and personality
- Keep people talking about the brand
- Reinforce the brand's positioning as fun, approachable wines
- Fuel growth by attracting new consumers
- Sustain growth by building brand loyalty

The advertising campaign was rolled out in two waves, starting with print and outdoor displays in 2004, and extending to television in 2008. The print campaign utilized sleek imagery to evoke lighthearted brand virtues and the growing variety of Yellow Tail wines (see Exhibit 20). This theme was carried through in initial television spots. For example, its 2009 "Tragedy" spot reinforced the three core traits that have defined the essence of Yellow Tail since its 2001 launch. Click here to view.

- A wine that doesn't take itself too seriously (while poking fun at "stuffy" old world wines)
- A wine that appeals more to younger (or young at heart) casual wine drinkers than to older wine aficionados
- A pleasant-tasting, good-value wine to be kept on hand for everyday consumption

Sales continued to grow through the decade, albeit more slowly than in its first five years on the U.S. market. In 2009, Yellow Tail achieved its fourth straight year of sales over 8 million cases in the U.S. market, remaining the number-one domestic or import table wine in dollar terms (see Exhibit 21). With a 15% share of the import wine market, Yellow Tail tripled the market share of its closest import competitor, Cavit from Italy. Six of its 12 varietals ranked in the top six table wines in dollar sales volume, including the number-one-selling Shiraz and Merlot and the number-three-selling Chardonnay and Riesling.

Commenting on Yellow Tail's success in the U.S. market, wine newsletter publisher Jon Fredrikson noted, "Yellow Tail caught the wave. It's perfect for the newest generation of wine drinkers and potential wine drinkers,'' adding, "it's the biggest achievement in the history of wine."[18]

Finding the Next Yellow Tail

In the summer of 2010, three questions were on Deutsch's mind as he pondered the challenges and uncertainties that lay ahead:

1. *With sales slowing toward the end of the decade, had the opportunity to capture* new *Yellow Tail customers largely run its course?*
   Yellow Tail's growth during its first five years on the U.S. market was driven by increasing consumer awareness, new product lines, and expanding national distribution. But by 2010, the brand already enjoyed the highest unaided awareness in its competitive set, a broad range of wine varietals and extensive nationwide distribution.

2. *How could the company maintain consumer loyalty, particularly given no end in sight to copycat brands?*
   Experimentation is inherent to the wine consumer experience. Other once popular brands had fallen out of favor in the U.S. market. Could the same fate befall Yellow Tail?

3. *Thinking more broadly, to maintain growth, should Casella Wines or WJD consider expanding into other alcoholic and non-alcoholic beverages?*
   There have been numerous other breakthrough product launches in the beverage industry, for example, Red Bull, Snapple, Gatorade, and Grey Goose Vodka. Could the partners' expertise in branding and distribution be leveraged?

As Deutsch pondered his options, the future seemed no clearer than it had a decade earlier at the dawn of the Yellow Tail launch in the U.S. market.

Questions for Discussion[19]

- From the viewpoint of "Porter's 5 Forces" strategic analysis, how attractive is the U.S. budget and premium wine industry?
- Would you characterize this market as a "red ocean"?
- How did most existing players compete? Distinguish by segment as appropriate. If you were planning to enter the U.S. wine industry, which segment would you choose and why?
- In what ways did Casella/WJD exploit "blue ocean" strategic opportunities in launching its Yellow Tail wines?
- What factors did Yellow Tail Eliminate, Reduce, Raise, and Create in positioning Yellow Tail wine? What did its strategy canvas look like relative to competitors?
- What explains the success Yellow Tail achieved over its first decade on the U.S. market?
- By 2010, has Yellow Tail's opportunity to capture *new* customers largely run its course?
- How can the company maintain consumer loyalty, particularly given no end in sight to copycat brands?
- Thinking more broadly, where might Casella/WJD find its next "blue ocean" market opportunity?

Exhibits

Exhibit 1

Wine Label Conventions

Source: W.J. Deutsch & Sons

Exhibit 2

Prevalence of "Chateaus" in Vineyard Names

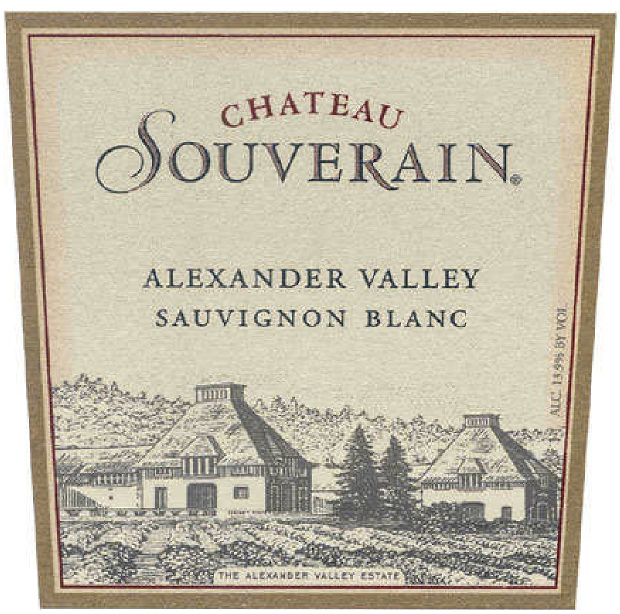


Exhibit 3

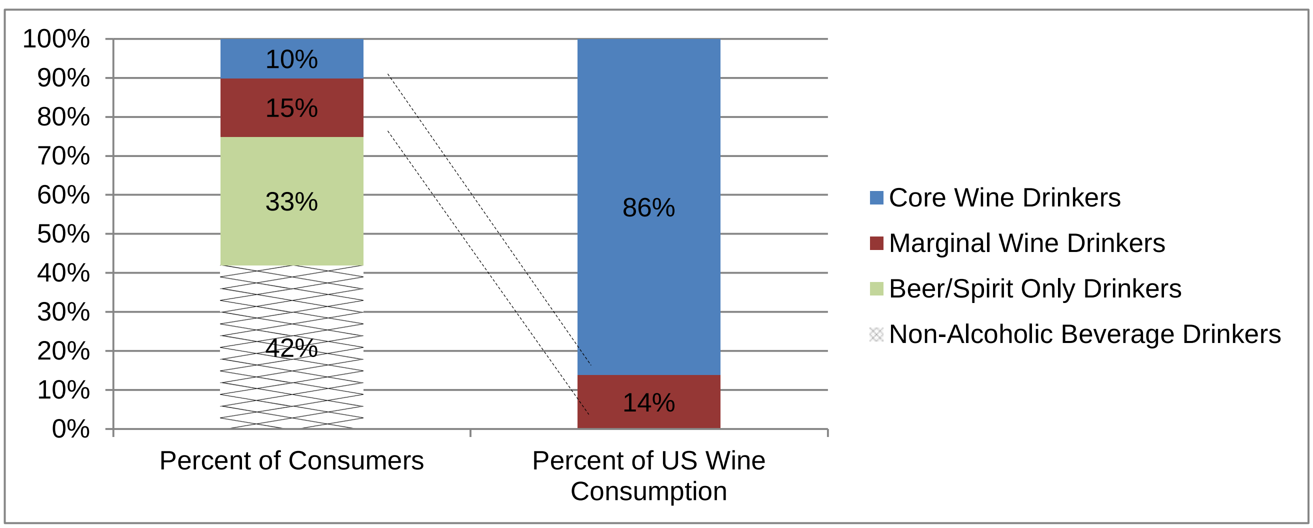
Global Wine Production and Consumption – 2000

Production Rank	Country	Volume hectoliters, M	Consumption Rank	Country	Per Capita liters/yr
1	France	58	1	Luxembourg	64.0
2	Italy	52	2	France	58.2
3	Spain	40	5	Switzerland	42.5
4	US	28	7	Spain	35.1
5	Argentina	15	16	Germany	24.3
6	Australia	12	21	Australia	20.1
7	Germany	11	28	Chile	14.8
8	S. Africa	9	34	US	8.6

Source: Wine Institute, http://www.wineinstitute.org, www.fas.usda.gov.

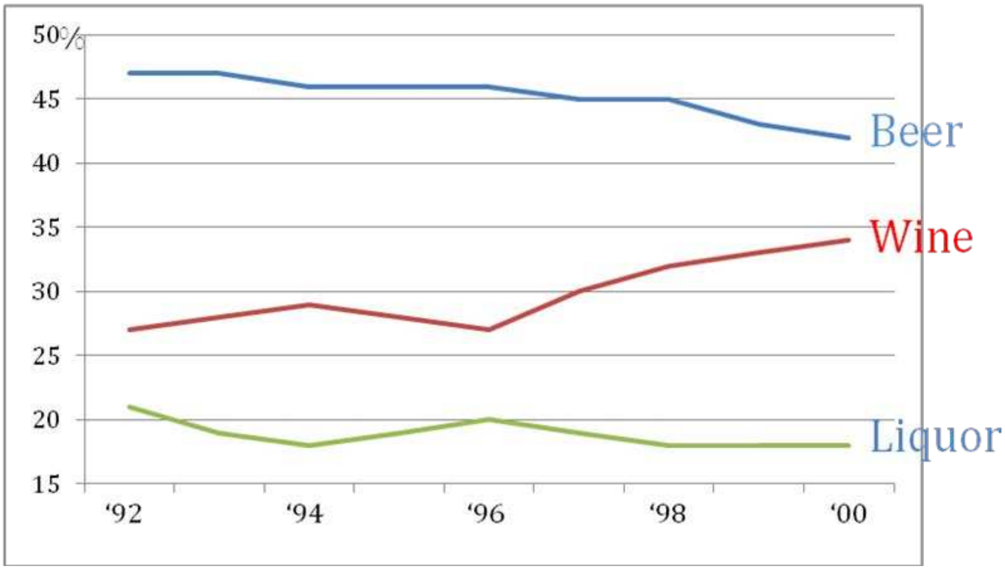
Exhibit 4

Wine Consumption by Type of Consumer – 2000



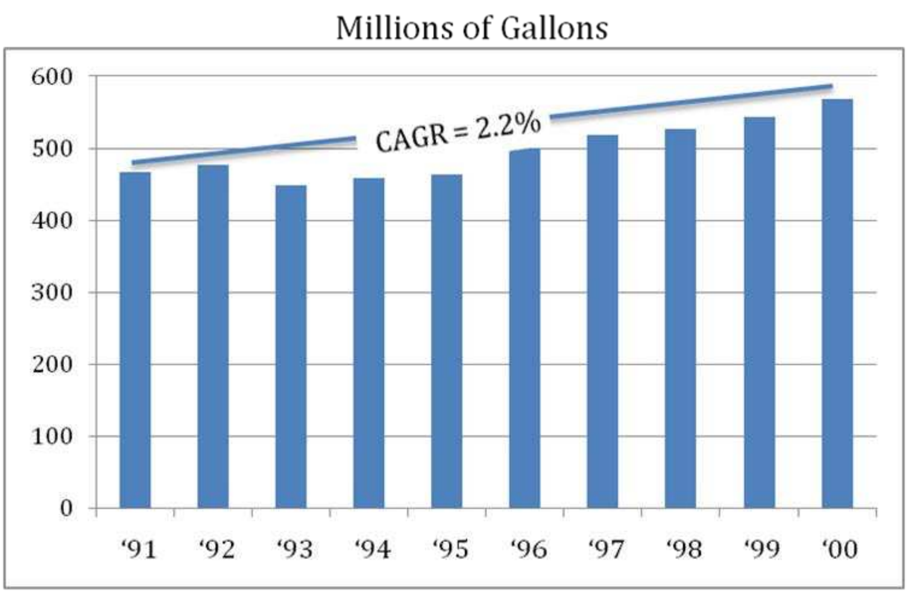
Source: Merrill Research & Associates, Wine Trends and Market Analysis.

Exhibit 5
Total U.S. Wine Consumption 1999–2000



Source: Wine Institute/Gomberg, Fredrikson & Associates.

Exhibit 6
Popularity of Alcoholic Beverages



Source: Gallup Alcoholic Beverage Surveys 1992–2000

Exhibit 7

U.S. Wine Consumption by Price Segment – 2000

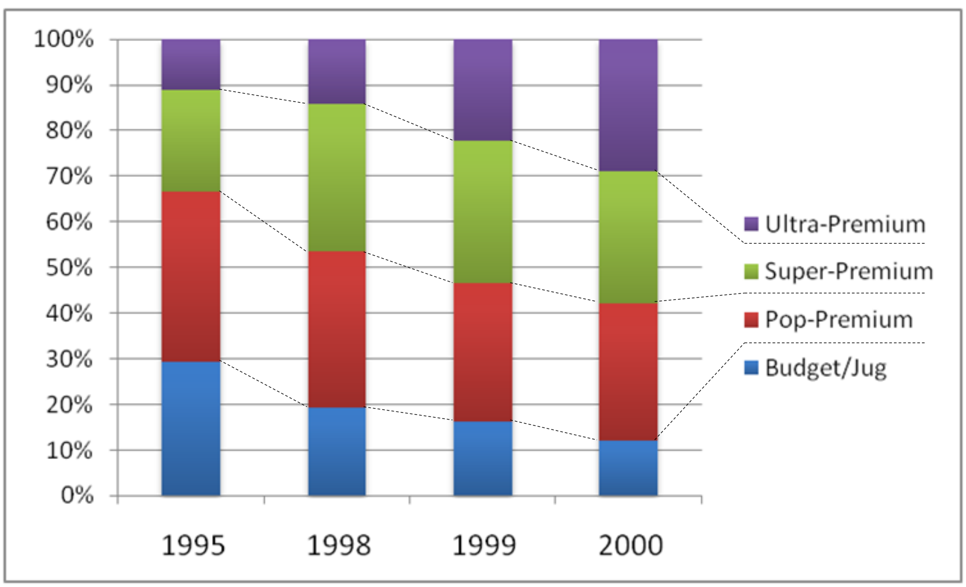
Segment	Price Range[1]	% of Volume	% of Sales[1]
Budget/Jug Wine	< $3	38%	22%
Popular Premium	$3 - $7	35%	31%
Super Premium	$7 - $14	18%	30%
Ultra Premium	> $14	9%	16%

[1] At retail prices

Source: Rachael E. Goodhue et al, "Current Economic Trends in the California Wine Industry," *Agricultural and Resource Economics Update*, Vol 11, no. 4 (March/April 2008, Giannini Foundation of Agricultural Economics, University of California.

Exhibit 8

Wine Revenue Shares by Price Segment

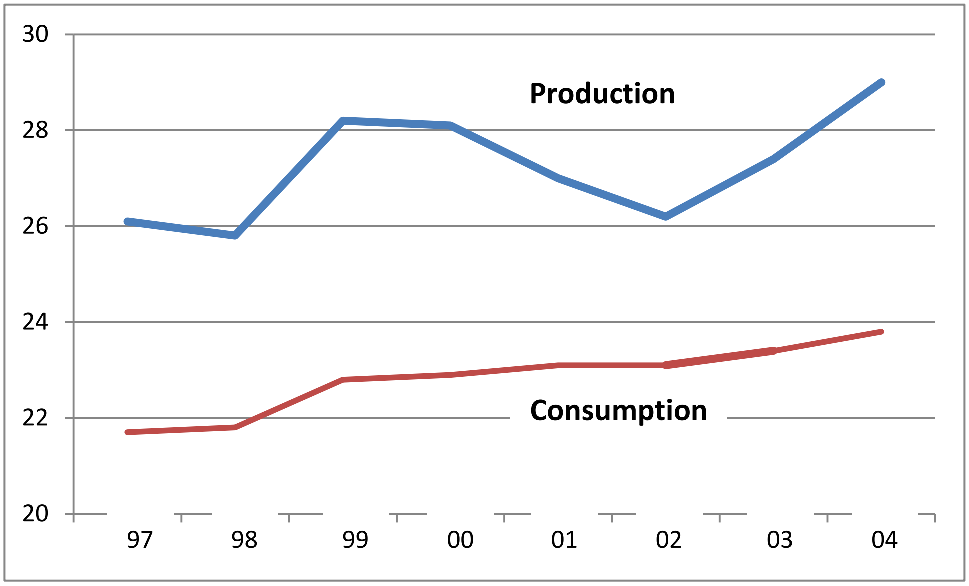


Source: Goodhue, "Current Economic Trends."

Exhibit 9

Global Wine Consumption and Production, 1997–2004

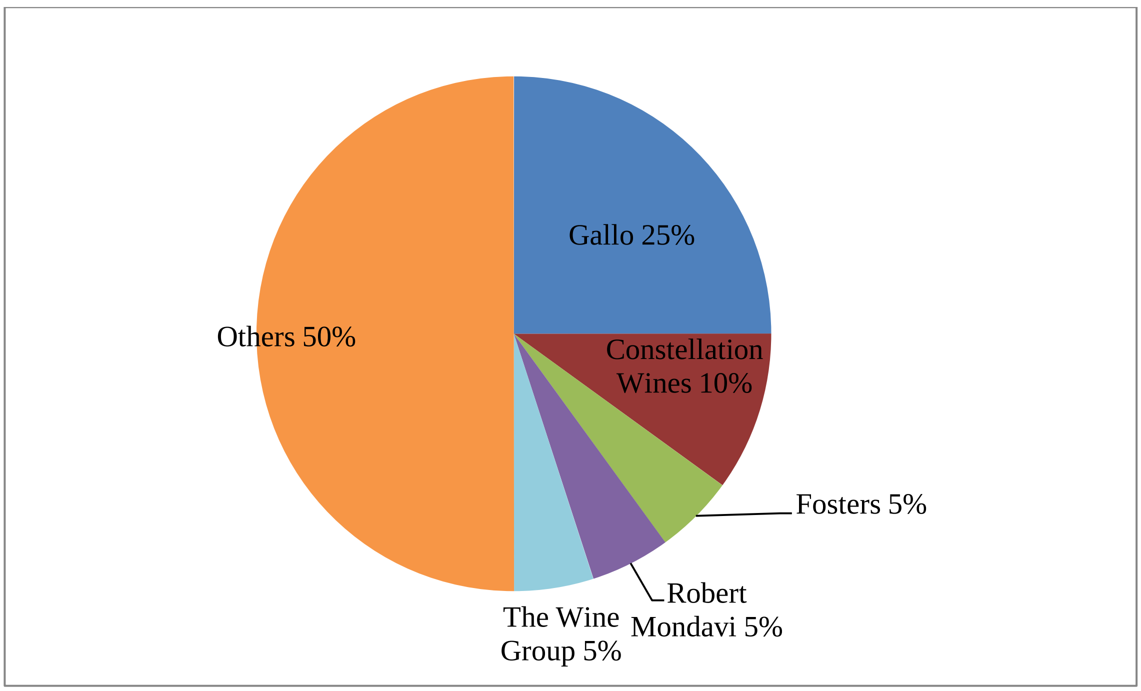
(liters, billions)



Source: The Wine Institute, 2004.

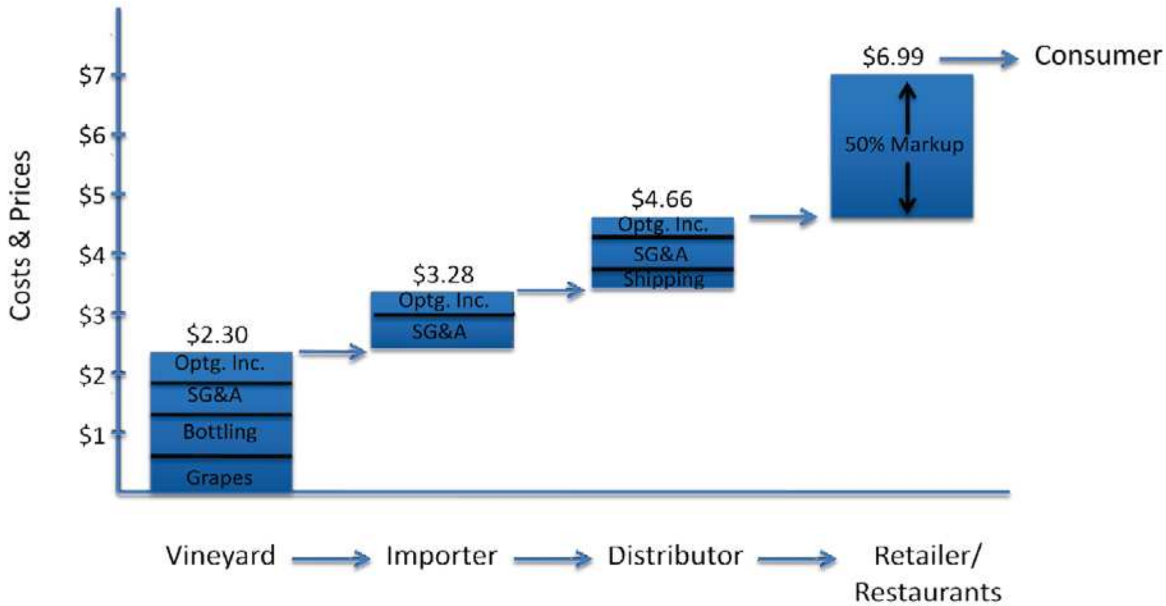
Exhibit 10

U.S. Wine Share by Sales Volume, 2000



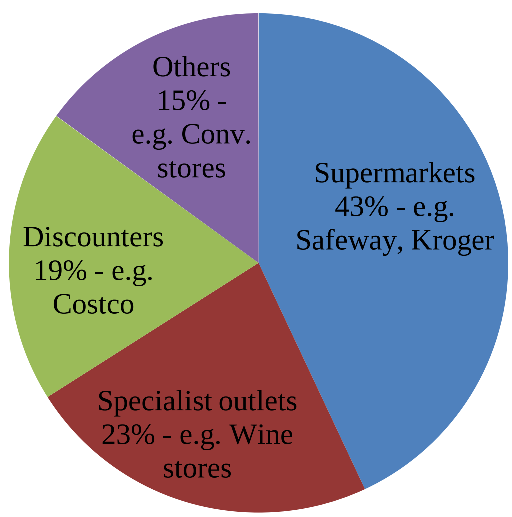
Source: Euromonitor.com.

Exhibit 11
Representative Value Chain for Wine Imports to U.S. Market



Source: W.J. Deutsch & Sons; Casewriter analysis.

Exhibit 12
Distribution of Wine by Retail Channel, 2000



Source: Euromonitor.com.

Exhibit 13
Yellow Tail Brand Image

Source: W.J. Deutsch & Sons

Exhibit 14
Promotional merchandise for retail store personnel

Source: W.J. Deutsch & Sons.

Exhibit 15

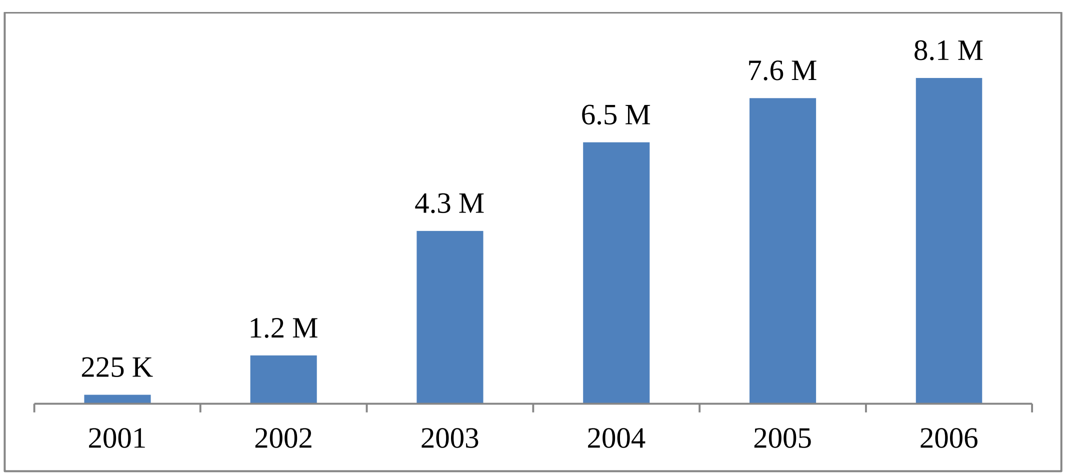
In-store Yellow Tail displays

Source: W.J. Deutsch & Sons.

Exhibit 16

Yellow Tail Sales in the United States, 2001–2006

(millions of cases)



Source: W.J. Deutsch & Sons.

Exhibit 17
Wine Sales in U.S. Groceries, 2002–2003

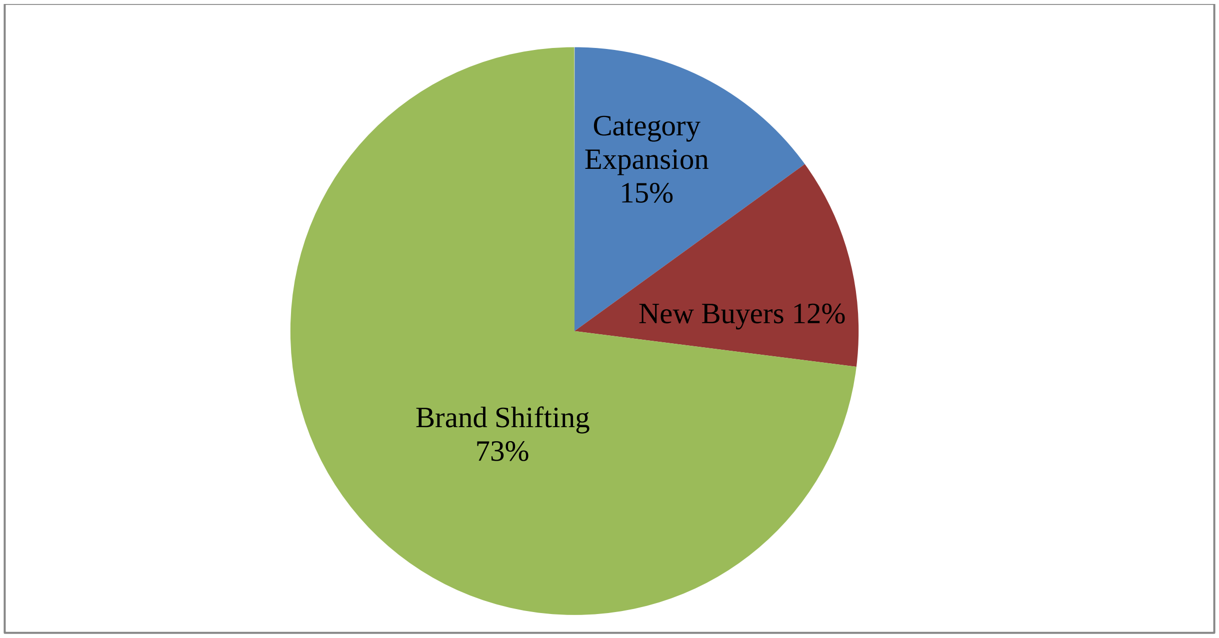
Source: ACNielson, Yellow Tail Impact Study, 2004.

Exhibit 18
Casella Wines Vineyard Processing Facilities

Source: Casella Wines

Exhibit 19

Sources of Yellow Tail Customers, 2003



Source: ACNielson, Yellow Tail Impact Study, 2004.

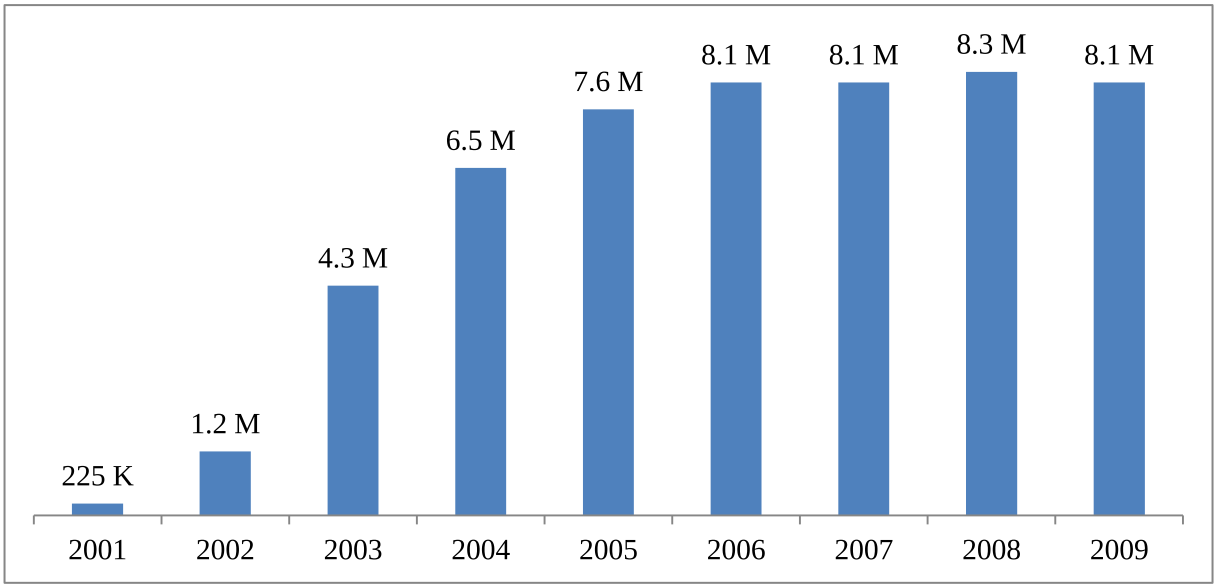
Exhibit 20

Representative Yellow Tail Print Advertising, 2005

Source: W.J. Deutsch & Sons.

Exhibit 21

Yellow Tail Sales in the United States, 2001–2009



Source: W.J. Deutsch & Sons

Endnotes

[1] Except where noted, comments attributed to case protagonists based on interviews with W.J. Deutsch executives conducted in June/July 2010.
[2] Market size cited in retail dollars. Figures taken from winebusiness.com.
[3] This section draws on material presented in W. Chan Kim et al, "Crafting Winning Strategies in a Mature Market: The U.S. Wine Industry in 2001," INSEAD, September 2009.
[4] "New Survey Shows 'Wine Anxiety' Is Widespread," BNET, 2009, http://findarticles.com/p/articles/mi_pwwi/is_20050229/ai_mark05045783/?tag=content;col1.
[5] Dr. Lapsley is a winemaker, author, and member of the faculty of University of California, Davis Viticulture and Enology Department. Quote cited in Kim, "Crafting Winning Strategies in a Mature Market."
[6] Market research has shown wine consumers are far more likely to shop for a wine varietal (e.g., Merlot or Chardonnay) than a country of origin. Imagine how odd it would be to shop for a television in a store that had separate display areas for televisions from Korea, Japan, and the United States, rather than aggregating all televisions by size class.
[7] Quote attributed to David Goldman, SunTrust Bank analyst, in "On Your Mark, Get Set, Consolidate," *Wine Business Insider* 10, no. 35, September 2, 2000.
[8] Kristen Wolfe Bieler, "Behind the [yellow tail] Phenomenon," Beverage Network, March 2006.
[9] A common industry term connoting wine rendered undrinkable by some form of contamination.
[10] Frank J. Prial, "The Wallaby That Roared across the Wine Industry," *New York Times*, April 23, 2006.
[11] Prial, "The Wallaby that Roared."
[12] Quoted verbatim from bottles of Chateau de Fontenille Grand Vin de Bordeaux, 2005, Chateau D'Arcins Haut Medoc, 2006, and Yellow Tail Merlot, 2008.
[13] Kim, "Crafting Winning Strategies in a Mature Market."
[14] Prial, "The Wallaby That Roared."
[15] Specifically, distributors who ordered a pallet of Yellow Tail wine were provided 100 hats and jackets to pass on to their retailers and truck drivers.
[16] Prial, "The Wallaby that Roared."
[17] AC Nielsen, Yellow Tail Wine Impact Study, 2004; casewriter analysis.
[18] Prial, "The Wallaby that Roared."
[19] Questions for this case assume students have read two prerequisite articles:

1. Michael E. Porter, "The Five Competitive Forces That Shape Strategy," *Harvard Business Review*, January 2008.
2. W. Chan Kim and Renee Mauborgne, "Blue Ocean Strategy," *Harvard Business Review*, October 2004.