CASELLA WINES AND THE SUCCESS OF [yellow-tail] 

by 

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**Introduction**

In 2004 Casella Wines won the prestigious Australian Agribusiness Exporter Award for the third consecutive year. This event meant the company was recognised among a select few of Australian enterprises in the Export Awards Hall of Fame:

> “It is such an honour to receive this award, especially considering that five years ago it (“yellow tail”) didn’t exist. The induction into the Hall of Fame is all the more sweet considering the short amount of time Casella has been in the branded wine business. We proudly share this award with our employees, suppliers and grape growers who have all contributed to our success …To have this occasion marked with the export of yellow tail’s 20 (now 21) millionth case is perfect. Since 2001, the growth of the “yellow tail” brand has been more than we could have ever hoped for and there are now millions of people worldwide enjoying our wines every day”
>
> John Casella, Managing Director

There could be little doubt that Casella Wines has ascended quickly among Australia’s Top twenty wine exporters. It started from eighth position in 2001, and then moved to fifth, fourth, and finally third position by 2004. In fact, Casella’s performance has resulted for the first time in a decade reshaped the order of Australia’s top five wine exporters by both volume and value. Today it accounts for more than one third of Australian wine sales in the U.S. In less than ten years it has grown from five to more than three hundred employees in the winery business alone.

**Strategy Development Process**

Since the inception of Casella Wines in 1969, it has primarily positioned itself as a low-profile bulk wine producer, managed by its post-war Italian immigrant founders: Filippo Casella and his wife Maria. The winery is located about 600 kilometres South-west of Sydney in the Riverina region of New South Wales. This is one of Australia most efficient wine producing regions, at the forefront of both mechanical harvesting and pruning, securing the twenty mainly local wineries with easy access to the high volume of relatively inexpensive yet good quality grapes. As John Casella, Managing Director, points out: "We couldn't have produced “yellow
tail” out of the Barossa Valley or the Hunter Valley. There is not enough fruit at the right price."

The founders had brought from Sicily skills learned by three generations of rural Italian grape growers dating from 1820. Indeed their hope for the winery was that it would add value to their newly acquired 16 hectare farm, purchased after years of savings through labouring as itinerant workers in North Queensland cane fields and New South Wales fruit fields. Above all, they wanted to pass on their wine making skills to the next generation as well as perpetuate the ancestral tradition of selling and sharing good wines with family and friends. Although in poor health today, nothing makes the patriarchal Filippo Casella prouder than to see his sons and, in more recent years his grand-children, working on the vineyard and joining family luncheons at the farm house. The family estate still overlooks the vineyards, although has grown to incorporate the trappings of a business with 85 million litres of stainless steel wine storage tanks in recent years.

“Yeah he’s amazed and very, very happy that in his life time he’s seen a dream come true which is a dream that every emigrant must have, to come to a new country and be seen to have contributed to that country.”

John Casella, Managing Director

For a number of years, the winery sold most of its product to the “big four”, yet always kept some for family and friends. They would combine the wines with their blends and package the end-result under their own label. Business started changing in 1994 when the second of their three sons, John, finally took over the family winery primarily to relieve his aging parents from daily tasks of wine making. He hoped to expand the winery and insulating it from the whims of the major bulk wine buyers. His younger brother, Marcello, was already helping with farm work whereas his older brother, Joe, had undertaken a career in insurance. John had graduated in
oenology at Charles Sturt University in 1982, and then worked for twelve years as winemaker at one of the main neighbouring wineries of Riverina Estate – another major local family-owned winery founded by immigrant Italians.

“When I first returned to my Mother and Father’s business in 1994, and started the expansion of the winery, I knew the key to success was going to be branded bottles of wine in export destinations. We invested heavily into developing those export markets, and in the early days, with the assistance of both the EMDG (Export Market Development Grants) scheme, and Austrade (Australian Trade Commission) offices overseas, we set out with the vision to turn our small family winery into one of Australia’s leading wine companies.”

John Casella, Managing Director

One of the important strategic decisions was to phase out bulk wine production in favour of bottled commercial premium wine production. This primarily entailed using bank loans to put the infrastructure into place. Another important decision was to forego the domestic market altogether, and instead focus efforts exclusively on the export US market, and in particular on its commercial premium wine market segment with prices ranging between $US5 and $US10. By comparison, the “big four” had traditionally focused on a high quality, high margin policy in the US. One of the interesting features of the Australian wine industry is that the most successful Australian export branded wines are often unknown to Australians, because these wines are entirely developed and produced with the export market in mind. However in order to set things in motion, Casella still lacked the basic skill in marketing as well as the crucial knowledge in export business. Export skills came from two sources. First, Austrade (the Australian Government agency supporting businesses developing international markets), and second, from John Soutter who was Customer Services Manager at Cranwick Premium Wines (at the time the largest wine exporters by volume out of the “big four”) who was recruited in 1997 to become Casella’s GM Sales and Marketing officer. Soutter had already provided support to managing director Graham Cranswick-Smith in the development, launch and marketing of “Barramundi” one of Cranswick's most successful commercial premium labels in the UK:
"I'd always wanted to develop a brand on my own and Casella offered that chance … My role was to add value to the wine … There wasn't any wine to sell but John always felt it's better to go knocking on doors getting to know people well before you actually need the sale rather than after, when you have a winery full of wine and there's only eight to nine months between vintages. That's when you'll be in strife."

John Soutter, GM (Export) Sales and Marketing

Getting the Marketing Mix Right

The first task of Soutter was to reorganise the winery's administrative system to handle export sales. Then he set about finding a major US importer with a substantial distributor network. But things do not always go according to plan in the export business. Carramar Estate – the Casella branded wine launched in 1999 for the US market - was a good wine selling for under $US10, but did not stand out from the crowd of other wine products; as well, it did not seem to be appealing to the American public:

“It wasn’t setting the world on fire. Our US importers called a meeting and told us it was, in their words, too much of a me-too wine. It was nice, but nothing special. They wanted better. After that meeting I came back feeling a little dejected.”

John Soutter, GM (Export)

After a short period of puzzlement, Casella set about developing a different style of wine. They looked for the most popular wine styles on the American market place - not the ones the retailers wanted, or the wine buyers, or the distributors - but the wines that the majority of the consumers were buying and asking for more. The focus shifted to a consumer market that was not particularly worried about matching food with wine or reading wine critic reviews in the popular press.

“We brought back hundreds of these wines from the US. Then we looked at how we could best interpret these styles from what we produced here, and what would fit in a price category of under $US10.”

John Soutter, GM (Export)

It became pretty apparent that the US consumers wanted fruit-forward wines. Therefore, Casella’s research was directed toward creating a young and early consumption product coupled with an explicit effort to minimize tannins and guard against any green tastes. This would entail a process of faster fermentation and a very subtle use of oak. The
result would be a wine product ready for immediate consumption that did not require ageing in barrels. Also, the wine was not expected to mature and, therefore, to keep improving in the bottle over time.

"We were very definite in maintaining the varietal fruit characteristics of the grape and were careful not to make the wine too tannic …That's what the consumer wants. More often than not, US producers produce what they want, not what the consumer wants."

John Soutter, GM (Export)

The result of Casella’s labour was a wine that the American market was looking for. It catered for a young and price sensitive new wine amateurs.

“It is a ‘value innovation’ product which continues to lead the way in opening new consumers to a taste profile of wine which is extremely good value”.

John Casella, Managing Director

Not all American wine critics were impressed by Casella’s new wine style. A panel in mid 2003 was formed by the Los Angeles Times, tasked with judging Australia’s most popular wines. The verdict of the panel’s review was critical – describing Casella’s chardonnay as "reminiscent of pineapple juice … an excellent lighter fluid".

"Yeah we laughed when we saw that. We laughed because 20 to 30 million Americans can't be wrong and they are the only ones that know what they're saying. At the end of the day we're tailoring a product that people enjoy, people keep buying and we're not going to change it regardless of what they - the so-called wine experts - say and we obviously don't agree with what they said."

John Casella, Managing Director

Yet despite all the work done, Casella still didn’t believe it had neither a major US distributor nor a particularly attractive and distinctive brand. Over a period of two years, the office doors of all major distributors remained shut. It was with the help of Austrade, acting as “match-maker”, that a remote opportunity emerged with WJ Deutsch and Sons. Deutsch and Sons were a major New-York based family owned importer that already handled Southcorp’s exports into the US market, and boasted a massive forty-four state network of distributors. It took Casella 18 months to convince its president, Peter Deutsch, to take them on board. Deutsch’s decision was aided by the merger between Southcorp and Rosemount, which left the US importer with no
Australian label in its wine portfolio – an impressive range which included Georges Duboeuf and Louise Pomery champagnes from France as well as Osborne Port from Spain and Portugal. Ultimately the breakthrough agreement took the form of a rather unusual and ground-breaking agreement: a joint venture giving the US importer fifty percent equity in the then-unlabelled “yellow tail” in the US.

"At that time it was considered radical. Now we find that most of the successful Australian companies operating in the US have initiated joint ventures with their American partners."

John Soutter, GM (Export)

It was hoped that such an agreement would motivate and harness the initiative of the new partner. As John Casella indicates: “We felt that if they had an interest, they would help build the brand.” The issue of family ownership in both companies that featured as an influence of mutual attraction that led to this agreement.

"The Casella family is a fourth generation family of winemakers … they were motivated to begin to build a brand that had equity in America. We were motivated due to the rising success of Australian wines here in the US and in addition to that, both families entered into a joint venture agreement."

President, Peter Deutch, WJ Deutch and Sons

Over the two year period of discussions between the potential partners, neither knew exactly what the brand name of the new wine would be nor what the label design would look like. The design of the label came about with the involvement of another young entrepreneurial company: Barbara Harkness Design. Her founder had been successful in designing wine labels for nearly a decade when she was invited by the Australian Export Council to sponsor the first Wine Marketing Conference held in her home town of Adelaide in October 1999. Harkness concluded after the conference that too often small wineries do not have time, resources, market research capabilities or legal knowledge to devise brand names for export markets. She created her “Just Add Wine” company to provide the market research, choose a brand-name and provide “off the shelf” wine labels. This left the wineries with only one thing to do: add the wine.
“Listening to the experts talk really inspired me … I wondered how I could be a part of it all … We took 6 months to develop six brands for our first ‘road show’”

Director, Barbara Harkness, Harkness Design

In the middle of the 2000 Australian winter John Soutter received a phone call from Barbara Harkness who was undertaking some cold-calling promotion of her new start-up business.

“I was very keen to look at new label designs after our lack of success in the US. But I was leaving for a trip to Europe. As it turned out, her husband (Lorenzo Zanini) was flying out the same day, promoting the first collection of Just Add Wine’s label designs and we arranged to meet between flights at the airport in Sydney. He showed me the labels, one of which was “yellow tail”. I bought it on the spot,”

John Soutter, GM (Export)

This deal was a great boost for both businesses involved.

“John Soutter of Casella Wines was the first person to see our off-the-shelf brands and in that one hour, before he took off overseas, became our first client, buying three of the six designs, one being the now-famous “yellow tail” brand. John was able to tell the US distributors he had been wooing for the past two years that he now had a marketable brand. After that airport meeting Lorenzo rang me. He was so excited - I haven’t even got out of the airport and I have already sold three designs”

Director, Barbara Harkness, Harkness Design

In Australia a “yellow tail” would usually refer to a fish (kingfish and yakka) or a bird (cockatoo) but not to a kangaroo. So it is somewhat puzzling that under the “yellow tail” trade mark the wine label shows an aboriginal X-ray art design of a yellow-footed rock wallaby.

“The label is a no-brainer. The kangaroo has become part of the trademark for people remembering the wine. Australia is a hot category in general, and the kangaroo - really a wallaby - means the consumer need not even think about where the wine is from. Having an iconic kangaroo on the label is particularly Australian. The contrasting black and yellow colours pick up on Australian traffic warning-sign colours and are designed to get attention. The brand name on the label appears in brackets and in lower case letters [yellow tail], which appeal to younger consumers as lower case letters are typical for email correspondence on the Internet. We kept the exercise as simple as possible in its execution. I knew from our previous product that one of the criticisms was that the label was appealing and attractive looking but like every other sitting
Keeping the message as simple as possible was the focus of efforts extended to the other varieties of wines and bottles as well.

“We started with just two varieties; a chardonnay and a shiraz. We produced them in two sizes - a 750ml bottle and a 1.5L one. It was important to keep buying decisions for the US distribution chains very simple otherwise they wouldn’t have considered us”

John Soutter, GM (Export)

The Outcome

Initially, US wine distributors took issue with the ‘Australiana’ label as well as the brand name. When shipping to the US for the first time in the second half of 2001, the targets agree with them were modest: They were hoping to sell 25,000 cases of “yellow tail” first vintage. By the end of its first year one million cases – forty times the originally anticipated consignment - were sold. In the following year sales kept increasing exponentially reaching ten million cases in 2005. By way of comparison, Orlando-Wyndham - number four on the list of Australia’s Top Twenty wine exporters - took 26 years to build its most successful brand “Jacob’s Creek” from 10,000 cases to an annual export run of more than 5 million cases in more than 50 countries.

“yellow tail has taken us all by surprise. We never, in our wildest dreams, expected it to be as big as it is. There's been a lot of hard work to get it to this stage and it all happened rather quickly. But, in hindsight, we realised we had got the five ‘P’s’ of marketing correct. I looked back at my 30-year-old marketing text books and there it was - product, packaging, promotion price and people. That formula has never changed … As we go forward, the problem is (that) there are not any textbooks written on this type of growth. We continue to go into uncharted territory."

John Soutter, GM (Export)

There is a receptive context for Australian products in the United States. The “best ever” Olympics held in Sydney in 2000 as well as the Australian support following “September 11th”- in contrast to the French condemnation of the Afghanistan military
intervention – has helped to promote products from the kangaroo’s country to American consumers.

"I believe that there is a positive sentiment in America for Australia and the kangaroo clearly identifies this product as Australian"

President, Peter Deutch, WJ Deutch and Sons

Such sentiment is reinforced by other research placing Australia at the top of the American wish list for holiday destinations.

"We didn’t ever expect to do these sorts of numbers – they’re huge numbers by any measure … The timing was right everything Australian was sort after, the product was right it was a little bit different to what was generally available, a little sweeter, more fruit forward and it was available at a very good price”

John Casella, Managing Director

The positive attitude towards Australia may only be one phenomena contributing to Casella’s success. For most US consumers with a price point under $US10, the country of origin is irrelevant when it comes to new world wines. What is more evident is that the scale and speed of Casella’s success remains beyond the reach of consensus or agreement among wine observers, and that it happened without the winery investing in consumer advertising.

” It was a cost decision at that time (not to advertise) but then the product took off so quickly that there was no point. Advertising to consumers at launch does not induce consumers to purchase. We’ve got a marketing program in place where we provide jackets, hats, key rings and other incentives. People overseas love Australiana-themed products.”

John Soutter, GM (Export)

Casella appeared to possess qualities needed to make a brand perform well after launch. It had point-of-sale materials that were loaded into wine containers and shipped from day one. These materials included colourful product display shippers that retailers could use to build floor displays, shelf talkers, backer cards as well as neck hangers with Australian recipes inside.

“When you are merchandising a new product you need to offer some sort of incentive to take it forward through the entire distribution chain.”

John Soutter, GM (Export)
Casella also developed a line of "Aussie Outback" clothing to be worn by retailer staff – bright yellow leather outback caps and oilskin jackets branded with the Casella logo.

"Even when we were doing our presentations to the distributors, we showed them everything we were going to supply to them. We needed to make the buying decision for them as easy as possible."

John Soutter, GM (Export)

After a period of concentration on establishing a firm base in the US market, Cassella began expanding its export destinations first to the UK, Canada and Germany, and then to Belgium, Switzerland, Finland, South Africa as well as parts of Asia.

“When focusing on export markets we went around the world and established distribution agreements … It is important for us to continue to target bigger markets which are capable of absorbing good volumes of wine. Other markets will then begin to open up to us … The last thing you want to do is compromise yourself and put all your eggs in one basket overseas.”

John Soutter, GM (Export)

Soon new wine varieties were added to “yellow tail”, leveraging the brand to exploit its power: a merlot, a cabernet sauvignon, a blend of cabernet shiraz and in more recent years a pinot grigo, a grenache and a blend of cabernet merlot. Furthermore, a special “yellow tail reserve” line priced at US$10 to $15 was developed. Meanwhile Casella’s range of varietal wines was distributed on the domestic market, under three different labels: Cottler's Bridge, Casella Estate and Yendah Vale.

"Obviously the growth has been exponential. Its been a real roller-coaster trying to keep up to it, but I think now we're starting to get a good grasp of yellow tail. Now we'll start to put some time and effort into the domestic market and these premium wines are a good step for the domestic market. Offering Australian consumers a premium wine and show them what Casella can produce"

Phillip Casella, Winemaker/Public Relations

**The Domestic Market**

On the backcloth of their success on the export markets releasing “yellow tail” in 2003 on the Australian domestic market - although using
consumer advertising this time -was seen as the next logical and sensible thing to do, as it contributes to building market share and adding value to the brand’s critical mass.

“Part of being a well-rounded wine business will lie in having a strong foothold [locally] … We were an unknown producer from the Riverina and what chance have you got of getting good retail space if you are a nobody? The first question they ask is: Why would I want to take somebody else's product off the shelf to put yours on? Whereas when you come back with a very successful product that sells so well overseas, you can say it's doing well overseas, it will do well here.”

John Casella, Managing Director

Targets in approaching the Australian wine market were modest. This was because the market was seen as overcrowded with many local competitor wine companies struggling to register a profit. Casella anticipated the sale of 50,000 cases of “yellow tail” in the first Australian vintage. However, such conservative targets proved to be wrong - again. By the time Casella was celebrating its first anniversary in Australia, brand sales had exceeded 130,000 cases.

"The year (2004) has been incredible with remarkable achievements for the yellow tail brand in the domestic and export front. We've received great reviews, plus won the coveted Jimmy Watson Memorial Trophy (for our cabernet sauvignon 2003) and the Stodart Trophy (for our Shiraz 2003). What makes me most proud are the latest figures showing the home market is embracing the “yellow tail” range."

John Casella, Managing Director

In the domestic market, Casella Wines is now attempting to move up-market with a new high-margin premium wine. The new and already award-winning cabernet sauvignon 2003 will be released under the “yellow tail” label and retail for about AUD$45. Although produced in limited number – 1700 cases only – this strategy clearly represents a shift of focus for the winery.

"If anybody thought volume was our only goal, we should remind drinkers that the Jimmy Watson Trophy winning Cabernet Sauvignon and Stodart Trophy-winning Shiraz, both from the 2003 vintage, will be ready for release later this year (the former under the “yellow tail” label and the latter under the Casella Estate label). I am incredibly proud of the cellar, technical and winemaking team who have achieved such an outstanding result. Casella Estate, due to the remarkable success of “yellow tail”, is in the midst of the most rapid expansion the Australian Wine industry has ever seen. The fact
that it was also possible to produce premium wines of such a high standard in
the midst of that explosive growth is a huge testament to their ability and
dedication ... It's not going to be a major part of our business but it's a
broadening of our strategy and it gives us a broader spectrum of customers.”
John Casella, Managing Director

The Future

The list of successive and unprecedented successes has attracted the attention of
potential investors. There is legitimate concern that some investors possess a more
instrumental and short-term focus and would like to be part of Casella’s success and
control this family-owned winery in whole or in part. However the family are not only
proud of the winery achievements but also very protective of their sovereignty and
independence particularly in comparison to listed wineries as well as the top five wine
producers in Australia now owned by global beverage conglomerates.

“As long as I am around there will be no listing ... Some of our larger
competitors are struggling to turn a profit in US markets but we’re seeing
unprecedented growth and I think that’s because we’ve honoured the original
vision for Casella – we’re reinvesting the profits in the business and ensuring
strong development of our brands into the future”
John Casella, Managing Director

John Casella maintains that looking after the future means protecting, maintaining,
and improving yellow tail's winning formula: a basic, easy-drinking and full-fruit
flavoured wine with reasonable complexity and palate length.

"We're trying to pay as much attention to every step of the wine making
process so that we can if we can make 10 minor improvements to the process.
A very minor improvement in our handling of the reds during fermentation
and skin contact all adds up. It's a cumulative process. We are trying with
every batch of wine to get the best quality from that batch of fruit".
Alan Kennett, Yellow tail's chief wine maker

Furthermore, Casella believes research and development is one of the keys to their
ongoing success. The winery has developed an extensive vine nursery and has a
thriving business in clonal selection, with orders for more than three million vines
last year. They see the winery as much more than only a money making business.

"We look after the growers that looked after us in the early days some of them
are very small growers but they'll always have a place here we're looking after
the bigger growers who are planting thousands of acres for us so at the end of
the day its not just a business about making money it's a business about relationships with people and looking to the future"

John Casella, Managing Director

For Casella, real success is not measured so much in sales volume, market shares or in profits, but rather in terms of how proud the family is to make a contribution to the country of adoption of Filippo and Maria more than five decades ago. Above all, the winery is still today as it was for its post-war Italian immigrant founders all about sustaining family relationships, sharing good wines with good friends and passing on wine-making skills to the next generation so they can in due time carry on the ancestral family tradition.

"It has never been about money … One of the most important things from our business point of view is that we do have family, that it (the winery) maintains the family structure as it has. It is all about the future and building a future for ourselves and the coming generations"

John Casella, Managing Director