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# High-value niche production: what Australian wineries might learn from a Bordeaux first growth

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**Abstract:** High-value niche production is reserved for the market's peak price-points. At these levels, rules of supply and demand change configuration. Manufacturers no longer compete on price, but instead are gauged against quality, uniqueness, reliability and prestige. As a result, their products are largely immune to economic fluctuations and offer alternative, often lucrative strategies for individuals and industry sectors as a whole. A sector in which the financial/cultural contrast between niche and mass production techniques is stark is the global wine industry. This paper examines the contrast by focusing on the Australian wine industry as a mass producer. The authors explore the current economic malaise of the industry and highlight associations between deteriorating product value and organisational structures. They then draw upon examples from one of the world's iconic wine producers – Chateau Haut-Brion – to provide tangible and symbolic templates of successful niche production. The outcomes are recommendations for reform among Australian wine producers and their governing organisations.

**Keywords:** niche production; mass production; wine industry; cultural benefits; competitive advantage.

**Reference** to this paper should be made as follows: Aylward, D. and Carey, G. (2009) 'High-value niche production: what Australian wineries might learn from a Bordeaux first growth', *Int. J. Technology, Policy and Management*, Vol. 9, No. 4, pp.342–357.

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## 1 Introduction

Production in the new millennium is moving increasingly towards contours of distinctiveness, in which competitive advantage is intimately linked to product

differentiation. Some argue that the growing emphasis on this differentiation is in spite of ubiquitous globalisation. Perhaps more astutely, others claim that the emergence of global distribution patterns is creating enclaves of localised difference and niche production chains (Aylward and Clements, 2008). These enclaves are responding to an emerging demand for individual stories and products in a market of, otherwise, ambiguous identity. Their niche production processes are replacing traditional high-volume strategies that have long dominated Western economies and still represent the manufacturing structures of less developed nations. They have established new frameworks of product quality, in which attention to detail and design, high levels of training and a focus on distinctive characteristics are ushering in creative approaches of artisanship. It is an artisanship that will continue to create discernable differences in the way firms, regions and entire economies compete for markets (Aylward, 2008).

## **2 The concept of niche production**

Niche production is an approach that has infiltrated most industry sectors. It is also one that carries with it a collage of tangible and symbolic meanings that differentiate it from industrial and high-volume methods. The Oxford Dictionary defines 'niche' commercially as 'a specialised but profitable corner of the market' (Oxford Dictionary Online, accessed May 2009). Niche production caters to this subset of the market by producing limited numbers of high quality, differentiated and crafted products.

It is an operating method that is based upon small-batch units of manufacture, reduced inventories, slower production techniques, greater specificity and use of technologies, significant individualisation, boutique distribution channels and restricted consumption of the final product. These tangible indicators are easily identified by the market and provide clear parameters within which small-scale manufacturing resides (Whisler, 1993). They are also recognised as key ingredients in any niche undertaking and provide understandings about quality and price between the producer and the consumer, understandings that are rarely disputed or questioned (Mosey et al., 2002).

But there are other elements embraced by high-value niche production. These do not adhere to agreed upon principles or present as tangible elements. In fact, their value is derived from their ability to transcend these constructs (Throsby, 2001). They are the intangible or symbolic elements that are woven into the entire production cycle, from inception right through the market, and they are profound. They may vary significantly from one producer to the next and remain unique to each producer, regardless of other influences. These elements would encompass such qualities as an individual belief or value system, locality of the site and surrounding community traditions, an artisan, hand-crafted technique and the individual product story. In harmony with more tangible processes involved, these qualities are what distinguish high-value niche products from those produced under a traditional volume/cost regime. The competitive advantage derives exclusively from the combination of their tangible and intangible qualities, and the recognition of those qualities in the market (Freeman and Audia, 2006; Throsby, 2001).

Well-known examples of such products may be found in the automotive industry, the leather goods industry, the restaurant trade or among timepieces. The modern consumer is well aware of the place that Aston Martin, Bentley or Lamborghini occupies in the motoring world. Similarly, well-known are brands such as Gucci in leather goods or

Rolex and Breitling watches. These prestige brands are the result of specialised, small-scale manufacturing, in which the quality and price are deliberately set beyond the reach of the mass market. They are brands that hold their value regardless of economic fluctuations and rarely suffer from oversupply. More importantly, such couture brands symbolise something much more than a utilitarian presence. An Aston Martin motor car, for example, is no mere means of transport. It represents British aristocracy, 'class' and tradition. It is considered as a thing of beauty, to be displayed and admired for its craftsmanship and elegance. The car unashamedly targets the top end of the motor market, not to be discounted, or bargained over, or to have its reputation disputed. Its lack of affordability is part of its attraction and is a combination of the studied handcrafting, careful production and prestige that are so embedded in its image.

### **3 Economics of niche and mass production**

Core elements of a niche environment include small batch production lines, high-labour costs, an absence of standardisation, lower levels of mechanisation and boutique distribution channels. Associated costs of production can therefore be significantly higher than those of their mass-produced counterparts. Similarly, however, the producer has far greater freedom to dictate market prices and entry points.

Because these producers engage in product rather than price competition the challenge is to increase the attractiveness of the product – to make it stand out – rather than to reduce its price. They target the highest price-points, which remain largely immune to demand fluctuations but are extremely sensitive to product quality. As such, small batch production is often a very lucrative process. Products are created that entice the consumer through a range of high-quality elements. These elements not only satisfy the criteria of reliability, prestige and sustainability of value, but appeal to the consumer's desire for recognition, a feeding of the soul, owning something of rare beauty (Aylward, 2008; Conti and Warner, 1997).

Alternatively, mass production, as first made popular by Henry Ford and his famous Model T Ford, follows the simple rules of low cost and high volume, and is in stark contrast to the examples above. Right across the supply chain, costs are kept to a minimum, from pre-fabrication of components, to minimal labour costs, to the use of high-technology assembly methods, to mass distribution and marketing channels. Such cost reduction methods are a requirement of and contributor to high-volume product dispensing. Mechanisation is a key component, ensuring low labour usage, product consistency/standardisation and speed of production. The high-volume system is organised to create a production environment of duplication and uniformity. It is an environment geared towards discouraging experimentation or individual attention (Batchelor, 1994). As such, each product is distributed at a minimum set cost calculated as a percentage of the final market price. The cost and final price are a determination of return per item.

In the case of a mass producer, high volumes directed towards particular (usually low to medium) price-points in the market mean the final price is capped by price-sensitive competition. Because the product is mass produced, there are no individual characteristics with which the consumer can connect and be charged for accordingly. The competition is determined almost exclusively by price, and the profit margin on each item, therefore, is low. If a producer raises prices, they automatically become less

competitive. If they lower them, they become more competitive, but their profit margins suffer accordingly. Examples of products subject to this type of competition might include: fuel, light bulbs, basic town cars, paper towels, pencils or face washers. The list of nameless, forgettable consumer goods is long and replacements are regular (Choi et al., 1990; Grabowski and Vernon, 1992).

## **4 Focusing on wine**

The wine industry is a sector in which both niche and mass production techniques represent a coexistence of very different, even mutually exclusive cultures. Globalisation of the industry has pronounced these differences and created distinct landscapes of supply and demand for each technique (Aylward, 2008). One is characterised by creativity and experimentation. The other is devoid of such contours, instead, built upon a foundation of uniformity and path dependency (DiMaggio and Powell, 1991). This paper focuses on the mass production environment so common within the Australian wine industry and uses dynamic examples from a Bordeaux First Growth – a high-value niche producer – to recommend alternative and financially sustainable production strategies. The significance of such an approach lies in the need to provide viable solutions to a wine production environment that is failing to respond to international market demands.

### *4.1 A brief history of the Australian wine industry*

The Australian wine industry has had what must be described as a ‘mixed’ past. Beginning in the early 1800s in New South Wales, planting and harvesting of grapes was sporadic with no real strategy for regular wine making until the late 1850s (Beeston, 2001). From this point, however, grape growing and winemaking spread rapidly to the other states of South Australia, Victoria, Western Australia and eventually, Tasmania. The impetus came from several founding fathers with significant foresight and energy. James Busby, George Wyndam and Thomas Hardy were among a number of leading figures that helped to create what today would be called an ‘industry’. Their passion and ambition was the driving force behind a developing cottage industry that would soon service a relatively large, if unsophisticated domestic market (Beeston, 2001; Faith, 2002).

From the 1870s to the 1960s, this market remained largely inward looking. Its several attempts at internationalisation were met with disinterest and even ridicule (Aylward, 2007; Faith, 2002). The colonial reputation was firmly fixed to Australia’s manufactured products, and wine was viewed as an example of the new colony’s ambitious but crude attempts to develop a world class product. European citizens largely rejected the wine and the American citizens were still in oenological infancy themselves, too busy with their own inward focus. In this period, however, the industry was quietly growing and maturing, and sophistication among both producers and consumers was developing (Beeston, 2001; Johnson, 2006).

As is common within wine sectors, the Australian wine industry was, in fact, on the cusp of a major scientific and organisational revolution. In the mid-1980s, the industry began a dramatic reorganisation of its research and development structures, its manufacturing techniques and its planting regime (Beeston, 2001; Faith, 2002). Led by a small, but powerful group of forward thinkers, the sector began to plan strategically for

its future and the position it wanted within the global industry. Organisational structures were developed, regulatory bodies established and a research and development program devised that would centralise resources and utilise a strongly scientific framework to ensure technically faultless, uniform wine was delivered to the world (Beeston, 2001; Faith, 2002).

The strategy was an enormous success. Within a decade, the Australian wine industry had established itself as the world's fourth largest exporter, and by the end of the 20th century, was dominating the commodity price-points of the US and UK markets. In the UK, for example, seven of the country's top 10 selling wines were Australian. The industry had rapidly developed a reputation for producing relatively cheap, clean, fruit-driven and pleasant wine. The 'flying winemaker' trend quickly emerged, where Australian winemakers travelled the world, charging extraordinary sums to show European, South American and South African producers how to create these high alcohol, fruit-drenched and blended wines. The country's vineyards expanded, the number of new industry entrants doubled every three to four years, and harvesting and fermenting techniques became mechanical, mass-volume events (Aylward, 2006; Brook, 2000; Johnson, 2006). There was a clear decision to pursue a mass, rather than niche production regime.

As such, it was also the era of the conglomerates, which, by the end of the century, were responsible for more than 80% of the industry's production. Consequently, the Australian wine industry gravitated more and more towards their interests and decision-making (Narula and Zanfei, 2005). And this is when damaging fault lines began to develop (Aylward, 2006; Aylward and Zanko, 2008). At the height of the industry's popularity and financial power in the new years of the millennium, structural and cultural inertia were already gripping operating practices, distribution and marketing decisions.

#### *4.2 The Australian wine industry as a case study*

For the purposes of this paper, the Australian wine industry presents as an ideal case study precisely because of this historical trajectory and the centralised nature of its governance, R&D and decision-making institutions (GWRDC, 2004). It is an excellent case study for one other very important reason. It is now in crisis. After enjoying robust financial conditions throughout the 1980s and 1990s, and dominating the commodity price-points of world wine markets, it has locked itself into a rigid supply paradigm. Its reputation for supplying fruit-driven, technically faultless wine is now shackling the industry and preventing it from moving beyond the lowest price-points. The centralised structures that allowed the technical revolution in the industry, that encouraged a science-based approach largely devoid of artisan elements, and that ensured a dominating influence by the industry's largest, most generic producers, is now preventing this sector from adapting to the market's increasingly disparate demands (Aylward and Clements, 2008).

The Australian wine industry has approximately 2,300 producers, yet the vast majority of these remain geographically and culturally isolated from decision-making and funding priorities. Instead, the industry's 'governing hub' located in South Australia, caters in large part to four or five global conglomerates, who provide vast resources in R&D levies, whose directors sit on the boards of the industry's major associations, and whose interests are antithetical to the regional concerns of small and medium producers (Aylward, 2005, 2006; GWRDC, 2004). In 2009, the industry is faced with a situation in

which its products are being increasingly forced into the lowest price-points of global markets. In the past year, it recorded a 18% value plunge in export markets, with volume increasing in the bulk wine categories (below \$1 per litre) while shrinking dramatically in premium and super-premium categories (Lockshin, 2006; MacQuitty, 2006; Margan, 2006; Rochfort, 2009). At home, it is also faced with increased competition, as imports of foreign wine have jumped 40% over the past year. It is becoming apparent that both international and domestic consumers are tiring of what many commentators label Australia's bland, standardised, industrial wine (Croser, 2004; Edwards, 2009; Marks, 2009; Port, 2008). The world's love affair with Australian wine is well and truly over (Aylward and Zanko, 2008; Margan, 2006; Smart, 2006). Yet the industry's governing associations remain largely inert, responding only in rhetoric while failing to implement any meaningful reforms.

#### 4.2.1 Proposition

The proposition put forward in this paper is that: *Niche production and the philosophy upon which it hinges have the potential to create significant economic and cultural value. In the wine sector this translates into sustained demand and high profit margins despite an economic environment of surplus grapes and falling price points. It is suggested that the Australian wine industry needs to better understand such a philosophy before it can overcome its structural and cultural inertia.*

## 5 Method

The method used is one of comparison and contrast. The authors draw upon data gathered in an in-depth interview with one of Bordeaux famous First Growths – Chateau Haut-Brion – to provide a template of high-value niche wine production (Turid Hoel-Alcaras, 2009). They use examples of the role the land plays in producing wines of excellence, the intense care and attention being devoted to the entire production process, the hand-crafted artisan methods, the philosophy that the wine-maker attaches to each bottle and the highly differentiated, financially lucrative end product. The authors highlight Haut-Brion's global reputation for the pursuit of excellence, its long history of producing outstanding products, and the prices its reputation allows it to command for each of its wines.

The authors also draw upon Aylward's (2005, 2006, 2007, 2008) case studies and extensive surveys of Australian wine producers and their governing associations to outline the standard methods and philosophy of the industry. Production practices at the Bordeaux First Growth are contrasted with the average Australian wine producer and the expectations of its national associations. The divergence in approach is explored and the philosophy behind each method is questioned and examined in light of developing global trends. The study is not intended to provide a comparison between Bordeaux and Australian approaches to winemaking, as the variations and multi-faceted methods within each sector would undermine the integrity of such a study. Rather, the authors are simply using a Bordeaux First Growth as a template of excellence in wine crafting that may provide options for those producers within an industry, that is, currently suffering severe image and structural problems. The authors also note that there are indeed exemplary cases of wine crafting within the Australian wine industry and this is

not questioned. Instead, the focus centres on what might be considered the standard approach, which is being held responsible for the Australian industry's current financial malaise.

### 5.1 *Niche production in the wine industry: the case of a Bordeaux First Growth*

In Saint-Emillion, "The history of the town and its wine has become intertwined. Wine is part of its history, its culture, and the social life of the town" (Sommers, 2008, p.21). Such a sentiment intrinsically relates to the processes and values woven into niche or custom production. It is a sentiment that is reflected in one of Bordeaux First Growths – Chateau Haut-Brion. Its Grand Cru status can be traced back to 1533, after the union of purchased land and the Mansion "constituted the true birth of Chateau Haut-Brion" (Dillon, 2008). But this birth represented far more than simply one finer wine establishment. 'Grand Cru' in Bordeaux is an historical acclamation that brings great prestige but also immense responsibility. It signifies a history of place, an absolute respect for the role of *terroir* in that history, the space that the *terroir* occupies within the local community, and the assurance that the winemaking practices carried out will not alter, but instead nurture the product of that *terroir*. This is the responsibility – the pursuit of excellence at all times and a commitment and loyalty to the land and the grapes it produces (Echikson, 2004; Johnson, 2006; Turid Hoel-Alcaras, 2009).

In this sense, niche production within the wine industry extends on what it may represent in other industry sectors. Niche wine production must begin with the cultural roots of the product and the place it occupies in both the imagination and reality of local, national and international communities. In the case of a truly iconic wine, the end product is just one element of the story. The story is equally about philosophy, values, heritage, respect and of course, place. These elements are intimately infused within every single bottle of wine produced. Haut-Brion is a living example of such an infusion (Grahm, 2008; Lynch, 1988; Turid Hoel-Alcaras, 2009).

### 5.2 *The Niche Vineyard*

As most iconic wine makers will testify, a great wine is primarily made in the vineyard. This begins with choosing suitable grape varieties for particular plots of land. In the best regions of Bordeaux and Burgundy, these 'plots' may represent several acres only, so that each grape variety is seamlessly matched to its particular soil type, gradient of land and micro-climate. It is an art that has been perfected over centuries and contributes to the subtlety and finesse of each wine (Johnson, 2006; Sommers, 2008).

At Haut-Brion, for example, a focus is on soil composition; the property has sand and soil in the upper layer and clay below with 10–15% large stones. These stones create cooler soil temperature and better drainage, allowing for a natural balance of water. This is essential given the fact that irrigation is forbidden in Bordeaux (Turid Hoel-Alcaras, 2009). There is also a focus on gradient, with preference for hilly terrain. Soil composition is far more complex in hill country, providing the vines and their fruit with greater character and finesse. There is a strong belief at the Chateau that each small plot has its own unique *terroir*, which includes both natural and human elements (Turid Hoel-Alcaras, 2009). The land, after all, is also influenced by those who till and tend to it. The ability to mix and match particular grape varieties between these *terroirs* allows the

winemaker to create interesting and highly individualised blends. The commitment to maintaining these small plots and the distinction between them is absolute.

Because no irrigation is used in Bordeaux vines send their roots much deeper into the sub-soils and extract a diverse range of nutrients and characteristics beyond what is available in surface soils. The depth of the roots also means that the vines are more vigorous and immune to the vagaries of peripheral weather conditions. And, because of the relative scarcity of water, the fruit is more intense and slower to ripen, allowing for a greater complexity. In addition, vine branches and therefore, yields are culled to reduce the tonnage per acre (Lynch, 1988; Sommers, 2008). Haut-Brion averages approximately 1.5–3 tonnes per acre – extremely low by New World standards – so that individual care can be maintained and so that each vine and each grape can be guaranteed maximum sunlight and nutrients, thereby producing the desired flavour and intensity. As Turid Hoel-Alcaras (2009) states, “It’s all about quality, not quantity”.

These elements add to the individuality and finesse of the Chateau’s wines, but the human element cannot be understated. According to Turid Hoel-Alcaras (2009), the philosophy is not to control each vintage, but to adapt to it. This is a critical approach and the greatest difference between authentic wine production and much of what takes place in the New World. At great Chateaux such as Haut-Brion, Latour, Y’quem and Mouton-Rothschild, the *terroir* must speak for itself. Its unique characteristics must be allowed to emerge naturally and thereby, enhance the final product. Any coercion necessarily adulterates the wine and undermines the authenticity of the *terroir*. The role of Chateau staff is to nurture what is already there (Dubos, 2009; Johnson, 2006; Sanders, 2005; Sommers, 2008).

Harvesting of the grapes follows a similar philosophy of minimal intervention. After vines are hand pruned, all fruit is hand-picked, using a team of skilled and experienced pickers. There is no machine harvesting, as the intention of hand-picking is to maintain the integrity of the fruit and cause minimal bruising. Grapes are then sorted at the end of each row, out in the field (Turid Hoel-Alcaras, 2009). This process of course takes longer and is more expensive than machine harvesting, but plots are small and speed and cost effectiveness are not priorities when picking for a world class product. This is the essence of niche production – complete care and attention through each stage of the supply chain.

### 5.2.1 Recommendation

There is much to be learnt from the vineyard management of a Bordeaux First Growth. For New World operators, there are several critical recommendations. First and most obvious, is the appropriate grape selection for the *terroir*. Because New World operators, and particularly Australian wineries, have traditionally placed little importance on *terroir*, the selection of grape for particular areas has been a secondary priority to current market shortages and demands. As a result, many of Australia’s wine regions are planted with inappropriate grape varieties and fail to produce their full potential. *Terroirs* become conflated, varieties become subject to inferior blending, and the final wine product can be, and often is, a very poor representation of its region (Aylward, 2006; Croser, 2004; Johnson, 2006).

Second, there is the reduction in yield. Current surpluses are unsustainable and only serve to crystallise an already deteriorating reputation for grape quality. In 2008, the Australian average grape yield was between 9 and 11 tonnes per acre, more than three times the average of Bordeaux First Growths (Winetitles, 2008). Parallel to this, is a need

for reduction in vineyard plots. The extraordinarily large lots with their very high yields necessitate a mass production approach. Hand pruning and picking in such acreages is simply not viable. Vines cannot receive individual attention and grapes must be subjected to the heavy bruising of machine harvesting.

Third, culminating from a lack of the *terroir* concept, high yields, mechanical harvesting and a subsequent detachment from the actual vineyard, Australian producers do not see their role as one of adaptation to the vintage, or as nurturing the natural qualities that may emerge. Instead, they see it in terms of control and manipulation. Interventionism is a key philosophy in Australian vineyard management – ensuring that each vintage is identical to the previous one, that the maximum volume of fruit is extracted, and that cost-efficiency is paramount. Any move away from the commodity sector of the market must begin in the vineyard. The Australian wine industry needs to accept the inherent qualities and characteristics of the *terroir*, needs to respect each vintage as a unique and natural consequence of its environment, and most of all, needs to understand the scale of wine economics – the fact that smaller volumes of higher quality wine can, in fact, be more profitable than larger volumes of mediocre wine. To put it simply, it is an Aston Martin/General Motors scenario (Margan, 2006; Croser, 2004; Smart, 2006).

### 5.3 *Niche winemaking*

A process of slow fermentation is undertaken in line with Haut-Brion's emphasis on traditional methods. The fermentation is often spontaneous, depending upon the vintage, indigenous yeasts are used where possible, and the New World fashion of micro-oxygenation, in which the fermentation is accelerated and adulterated for flavour manipulation, is forbidden. Alcohol levels are kept to approximately 13% to allow the wine's natural elegance and suppleness to be expressed without a concentration of sugar and fruit. When fermentation is complete, all 'first' wine is placed into new French oak for at least 20 months. This practice, together with the traditional Bucher horizontal wine press, has been in place at Haut-Brion since the beginning of the 18th century and is seen as the ideal method of ageing fine wines (Dillon, 2008).

The quality of oak used is ensured by the fact that Haut-Brion maintains its own cooper. The relationship between winemaker and cooper is viewed as critical among the world's iconic winemakers, and with Haut-Brion hosting its own cooperage, each vintage's requirements can be assessed individually, with adjustments to fermentation and barrel ageing being arrived at in a truly collaborative way. The wine's integrity is further maintained by keeping filtration to a minimum. Despite pressure from the UK and particularly US markets, Bordeaux First, Second and Third Growths have refrained from following the fashionable path of filtration. While many New World producers have adopted multiple filtrations as a 'guarantee of fault-free wine', many authentic producers argue that filtration brings its own problems (Blumer, 2002; Johnson, 2006; Lynch, 1988). They claim that it is often used to obscure ineptness or as a substitute for careful and skilful winemaking, and that removing 'faults' and sediment from a wine, also tends to remove its character. In fact, many iconic producers contend that 'faults' are what gives a wine its personality and make it truly interesting, and that the New World practice of three or four filtrations, even micro-filtration, only ensures a uniform blandness among products. Haut-Brion also subscribes to the 'less is more' philosophy when it comes to filtration. They will lightly filter only when there is no alternative and never more than

once, but usually rely on simple fining with egg white. Their reasoning is that remaining loyal to the *terroir* is always the guiding principle in winemaking, and that practices such as multiple filtrations or micro-filtration interfere with the integrity of the *terroir* (Blumer, 2002; Johnson, 2006).

At Haut-Brion there is no ‘distance’ between the winemaker and her/his product, but rather, an intimate involvement in every stage of the process. As Turid Hoel-Alcaras (2009) states, their estate has no interest in producing a standardised wine that adheres to uniform, mechanised processes. Their role is to produce wines with personality and this is only possible if the personnel and practices at each stage of production are intricately connected. This type of connection epitomises niche production chains.

### 5.3.1 Recommendations

Reforms to the standard Australian winemaking practices can only occur in line with vineyard management reform. The two cannot be disengaged. If the Australian wine industry move towards a recognition of *terroir*, lower yield vines, appropriate grape selection and less mechanised harvesting, then its winemaking practices could also move towards reform.

*Terroir* recognition is probably the most critical of these reforms, as all other practices need to reflect and protect this concept. For Australian winemakers, this would mean an end to multi-region blending, in which ‘homeless’ wine is created without personality, individual characteristics and a story to tell. As importantly, it would mean the beginning of a new relationship between winemaker and wine – a relationship based on respect and product authenticity (Aylward, 2008; Aylward and Zanko, 2008).

Fermentation, for example, would require significant reform. Practices such as the manipulation of artificial yeasts, heavily reduced fermenting periods, and the widespread use of micro-oxygenation would need to be examined in light of new, higher price-point objectives. A move away from mass production would require acceptance of natural yeasts in the fermentation process, and a longer, more balanced fermentation, allowing for a natural conclusion rather than through forced intervention.

Consistent with these reforms would be renewed attention to wine presses and oak usage. A large number of authentic producers still adhere rigidly to small basket and bladder presses, and even gravity presses, to provide maximum protection to the fruit as juices are extracted. These presses are designed to process relatively small volumes of fruit, and through gentle pressure, maintain grape viability. They are also consistent with the philosophy of minimal manipulation and harshness in the production procedure. They differ markedly from many New World practices, particularly among larger producers. In Australia, for example, common presses include the horizontal screw and continuous screw, which are designed to extract juice from a large volume of fruit in the shortest time possible. Grapes are heavily bruised with over blended and acidic juices being fed into the mix. The resulting taste is palpable and undermines the natural balance and suppleness of the grape juice. Pressing is a critical stage in wine production and the best, most careful winemaking methods can be neutralised very quickly through harsh, high-volume pressing. If producers are to adopt niche values, then the ‘industrial’ pressing currently undertaken in the majority of Australian wine production must be addressed.

Similarly, oak usage (or non-usage) is another final stage procedure that has the potential to either enhance or heavily compromise prior niche practices. Described above, Haut-Brion’s oak usage and ageing is consistent with the vast majority of authentic wine

production. The cooper's role is critical to this stage, ensuring that the oak barrels are of the highest quality, that their seals are perfectly adjusted, that the toasting complements and nurtures the wine's natural flavour, and that the age of the oak is correct for the particular vintage. Quite simply, the required care and dedication at this stage cannot be overstated (Turid Hoel-Alcaras, 2009).

Such care is negligible among a large number of Australian wineries, and is non-existent among the lower-to-medium price-point wines. In the premium and super-premium price-points, Australian producers cannot afford to indulge in anaemic practices such as substituting oak staves and chips in steel tanks for authentic oak barrel ageing. This practice is ubiquitous among the larger producers and in worst-practice cases, plastic barrels are now being used with oak chips, to provide cheaper, quicker ageing, with multiple reuse (Port, 2008). The practice is indeed economical, but it also epitomises the 'industrialisation' of wine and it is antithetical to a niche approach. Premium and super-premium wines cannot be subjected to such practices if they are to command any respect or demand within the wine community and the broader marketplace. Niche products cannot be tainted with 'industrial' methods or attitudes and at the same time retain their actual and symbolic superiority.

Filtration possibly commands the strongest recommendation. New World and particularly Australian producers operate primarily within a scientific paradigm – 'the more it is measured, tested and decontaminated, the better it must be'. As discussed above, Australia's obsession with producing a 'clean' product has led to the dramatic overuse of filtration. Critics argue that after filtering a wine three or four times through progressively finer filters, the wine's character and uniqueness are largely removed (Blumer, 2002; Lynch, 1988; Johnson, 2006). What is left is a consistent, clean and bland product that is highly similar to any other New World wine in its price category. A change in this approach, does, however, require cultural adaptation and rethinking, and therefore, will take time. But it is also a cultural adaptation that assimilates with the other artisan reforms recommended. If both individual producer, and the industry as a whole, learn to think differently about their product, the qualities that can be enhanced along its production cycle, and its identity as a cultural asset, then practices will eventually follow this thinking. Over-filtration is merely a symptom of an 'industrialised' mindset that will evolve in approach as other niche and artisan qualities are introduced to the equation (Aylward and Clements, 2008).

#### *5.4 The financial foundation of artisan ideals*

The following tables, taken from a previous study by the author (Aylward and Clements, 2008) clearly indicate that such niche practices are far more than romantic ideals. The study ratified the claim by many iconic producers that the financial viability of a wine firm increases in line with its graduation from lower to higher price-points. This particular study surveyed 100 Australian wine firms with representations from commodity producers, premium producers, ultra-premium and iconic producers. It was conducted in the midst of Australia's most severe wine glut (2008), when industry prices overall were falling dramatically and international demand for Australian wine was decreasing through each consecutive quarter. Australian wineries as a whole, were (and still are) experiencing their worst financial returns in more than 30 years. Yet a small group continues to prosper.

As Table 1 shows, 23% of respondents stated that the wine surplus was having no impact on their financial viability. At the other end of the scale, 43% claimed that the surplus was having a moderate to severe impact on their financial viability, in some cases even threatening their survival (Aylward and Clements, 2008).

When these figures were further disaggregated, the study found that of the 23% who stated there was no impact at all, but one producer claimed that their export value had either remained stable (48%) or had actually increased by 10–15% (26%) (Aylward and Clements, 2008). A clear association was demonstrated between resilience to the grape surplus and increasing export values (not only volumes), while those financially affected by the glut were also experiencing lower export values (Table 2). But it gets more interesting.

**Table 1** Impact of wine surplus on firm operations ( $n = 100$ )

<i>Degree of impact on operations</i>	<i>Percentage</i>
No impact	23
Slight impact	34
Moderate impact	24
Significant impact	12
Threatening survival	7

**Table 2** Association between effect of wine surplus and export status – firm categories

<i>Impact of wine surplus</i>	<i>Export value status</i>	<i>Percentage of firms (%)</i>
No impact (23%)	Export value fallen	4
	Export value unaffected	48
	Export value increased	26
Slight negative impact (34%)	Moderate fall in export value	21
	Export value unaffected	65
	Export value increased	9
Moderately negative impact (24%)	Significant fall in export value	50
	Export value unaffected	25
	Export value increased	16
Significant negative impact (12%)	Significant fall in export value	67
	Export value unaffected	17
	Export value increased	0
Threatens survival (7%)	Significant fall in export value	43
	Export value unaffected	29
	Export value increased	14

#### 5.4.1 Association between price-points, differentiation and competitive advantage

The causal effect of these relationships becomes more apparent when average FOB export prices are introduced to the equation. Results clearly show an association between resilience to the surplus and price-points into which the wine is sold (Table 3) – the higher the price-points, the higher the export value and the greater the resilience to the wine surplus (Aylward and Clements, 2008). In the middle of a prolonged wine glut, in which bankruptcies were recorded on a weekly basis and hundreds of producers were ‘pulling up’ unprofitable vines, Australia’s ultra-premium and iconic producers appeared to be experiencing stable, or in fact, improved financial conditions. The situation was no accident, but rather, a clear illustration that niche products remain in demand regardless of the economic conditions, simply because of the qualities and uniqueness that they embody. As Table 3 demonstrates, the ideals of niche production and financial return are very closely connected.

**Table 3** Association between impact of surplus and export price-points

<i>Impact category</i>	<i>Average FOB price per case</i>
No impact	\$212
Slight negative impact	\$114
Moderate negative impact	\$109
Significant negative impact	\$92
Threatening survival	\$84

## 6 Concluding remarks: reducing the gap

The primary objective of this paper (and the above recommendations in particular), is to illustrate the advantages of a reduced ‘distance’ between the producer and the product. By depicting a truly niche production environment within the wine sector and highlighting the cultural and financial success of that environment, the authors hope to stencil a framework of operation for the Australian wine industry.

Data collected from Chateau Haut-Brion has provided a suitable template of successful, high-value niche production, and in a sector such as the wine industry, it is a template that is adaptable. The authors, however, are not simply advocating a standard ‘best-practice’ model in which concrete elements can be replicated across sites. Rather, their recommendations represent a fabric of tangible and symbolic qualities that have been generated and adapted by a highly successful and world-renowned wine producer. Such qualities can intersect and contribute to vineyard and winemaking practices at all levels of production.

Haut-Brion is certainly not alone in its pursuit of quality. There are many operators located throughout France, Italy, Spain, the USA, New Zealand and even Australia, among others, who pursue the highest possible standards of artisanship in their wine production. The critical quality these operators pursue, and have attained, is an understanding, and in many cases, an intimate connection, between the producer and the consumer. The values of heritage, *terroir*, artisanship and product story represent a tight weave of shared beliefs between the maker and the purchaser. It is a set of beliefs that

transcend normal product and process systems, occupying a symbolic, almost ethereal space in which the wine represents an experience, a journey of devotion and the pursuit of perfection.

In Australia, this paper argues, artisan producers operate at the cultural periphery of a wine industry whose values remain largely antithetical to artisanship and high-value niche production. But, as financial pressures mount on mass producers, as their profit margins shrink, and as the continued economic success of iconic producers becomes increasingly apparent, cultures will change. Small and medium wine producers, who can no longer compete with large corporations in the commodity sector, will see the attraction of developing a differentiated, high-value product for niche markets. The Australian wine industry faced with growing irrelevance internationally and domestically will be forced to make stark choices. It may continue along a path of low value dependency or reinvent itself by embracing the cultural qualities of its product and offering a suite of commodity, premium and truly iconic brands to a discerning market. As seen in the export data and recommendations outlined above, the environment is ripe for the pursuit of entirely new conceptual and operating paradigms.

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