

# **Yealands Wine Group Estate: Balancing business and sustainability**

**Elena Garnevska, Sarah McLaren and Sayaka Hiroki**

## **Company background**

Peter Yealands is Executive Director and Founder of Yealands Wine Group Estate, a private company established in 2008 in New Zealand (NZ). Yealands had achieved a significant growth in a very short period of time. In 2011, the company experienced about 90% growth in sales over the previous year and had been growing about NZ\$25 million a year in the last three years. In 2012, Yealands produced 15,000 tonnes of grapes from their own vineyards and 12 Million litres (L) of wine. Yealands was the sixth largest wine exporter in NZ and aimed to move to fifth place in the next few years. However, there was only 24% increase in sales in 2012 with Yealands selling 750,000 cases<sup>1</sup> and having NZ\$75 million turnover.

Environmental sustainability was at the core of Yealands' business and was regarded as "good business sense." Peter's goal was to become the most sustainable producer of wine in the world. The company had won several prestigious international sustainability awards in the last couple of years.

The history of Yealands began in 1998, when Peter bought 20 hectares (ha) of land in Marlborough. He fell in love with the idea of grape growing and bought his first Seaview vineyard of 120 ha in 2001; over the next few years he bought more land and vineyards. By 2012, the Seaview Vineyard included 1,150 hectares and was the largest privately-owned single vineyard in NZ. In 2007, a decision was made to build a winery due to the forecasted oversupply of wine grapes in the region. Sustainability (in particular, energy and water efficiency) was a fundamental principle underlying the design of the winery, which was opened in 2008. In 2010, Yealands established their own distribution system within NZ in order to have greater control over their products and to establish closer relationships with customers. In 2012, Yealands acquired Ager Sectus, another NZ wine producer. The main objectives of the acquisition were to increase red wine production and ownership of strong brands in red wines. Peter and his wife Val owned 75% of the shares of Yealands Wine Group Limited; the remaining shares were held by Ager Sectus Wine Estates Limited.

## **Yealands in 2012**

Over 85% of the wine produced at Yealands was white wine (75% was Sauvignon Blanc, 10% Pinot Gris, 1% Riesling Gewürztraminer and 1% Viognier). Between 40-45% of the

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<sup>1</sup> A case comprises 9 litres of wine (12 bottles of wine in a case; 0.75 litre in a bottle)

wine was sold under company-owned brands, which included three core brands (Yealands Estate, Crossroads, and The Crossings) and several 'strategic brands' (Three Stones, Flexborne, Babydoll, etc.). The sales of the branded wine increased over the last two-three years. Strategic brands were designed to serve a specific market. More than half of Yealands wine was non-branded (sold as private labels and trading brands). Yealands supplied about 50 private labels, which were classified into two types: customer-owned private labels (such as Tesco) and private labels owned by Yealands, called trading brands.

About 90% of Yealands production was exported and sold in more than 70 countries with the key markets being the UK, Australia, USA and China. About 38% went to Europe, 36% to Australasia, 22% to the Americas, 3% to Asia, and the rest to the Middle East and Africa. Yealands' growth rate in China was over 600% in 2012 and it was becoming a very important market for the company. Yealands worked mainly with distributors in the export markets. The company had established two successful subsidiaries as part of their growth strategy: one in Australia (2008) and one in the US (2009). In China, Yealands was in a process of establishing a subsidiary. Additionally, in 2010, one full-time employee was located in Brazil to support distribution of Yealands wines in that country.

Yealands' major competitors in NZ were: (1) Pernod Ricard - a French spirits group that owned several iconic NZ wine brands such as Brancott/Montana, Church Road and others, selling around 3 million cases<sup>2</sup> a year; (2) Constellation Brands, NZ – an international company that was the world's biggest wine producer and owned several NZ brands like Nobile, Selaks and Kim Crawford, selling around 2.0-2.5 million cases per year; (3) Delegats - enjoying global success with its Delegat's and Oyster Bay brands, selling around 1.9 million cases per year; (4) Treasury Wine Estates, an Australian-based wine making and distribution company that owned NZ brands like Matua, selling around 1.5 million cases per year; and (5) Villa Maria - a NZ-owned company with its own Villa Maria brand, selling around 1.2 million cases per year. Yealands held sixth place, selling around 750,000 cases per year. The next position was shared by several smaller companies, such as Mud House Winery, Babich Wines and Lion Nathan Wine, selling around 500,000 cases per year.

Yealands Estate branded wines had been certified under an internationally accredited greenhouse gas certification programme (carboNZero) since 2011. There were only two other large wine companies in NZ marketing themselves on environmental credentials in a similar way to Yealands: Villa Maria with its CEMARS certification, and the iconic NZ

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<sup>2</sup> The data about the sales of cases of different NZ wine companies is based on case writer estimates.

brand, Brancott Estate (now part of Pernod Ricard) which had ISO 14001 certification and managed a number of environmental projects.

### **Global and NZ wine industry overview**

The global wine industry had changed dramatically over the last decade. Wine production and consumption in the Old World countries such as France, Italy, and Spain had declined while the New World countries such as Australia, NZ, and Russia had increased in both production and exports. China was one of the fastest-growing wine markets, accounting for about 7 % of global wine consumption in the last few years<sup>3</sup>.

NZ remained a small international player in terms of volume; however, it had recorded the strongest growth in the New World countries in both wine production and exports in the last decade. NZ wine production increased almost fourfold from 60 Million L in 2000 to 235 Million L in 2011. NZ was also the fastest-growing wine exporter globally in the last decade and maintained higher wine prices for bottled wine compared to the other major wine exporters. Sauvignon Blanc dominated NZ's wine exports, accounting for 80% of bottled wines sold overseas<sup>4</sup>. The top three markets for NZ wine were Australia, UK and USA, which accounted for about 90% of total wine exports. The wine industry was the eight most valuable export earner in NZ with wine export value of \$1.2 Billion in 2012.

### **Wine environmental initiatives**

Environmental sustainability initiatives in the global wine industry had mainly been taken forward at regional level. Particularly proactive regions had developed their own environmental sustainability programmes including: California Sustainable Wine Growing Program; Integrated Production of Wine (South Africa); Sustainable Winegrowing NZ; and Entwine Australia. The Sustainable Winegrowing NZ (SWNZ) programme had been launched in 1998/1999, and almost all NZ wine producers were required to achieve either SWNZ certification or organic/biodynamic certification by 2012.

In NZ, in addition to the SWNZ programme, the CEMARS and carboNZero programmes provided support tools and processes for measuring and managing greenhouse gas (GHG) emissions, independent verification of GHG claims, and marketing of CEMARS or carboNZero certification status. A number of NZ wineries also invested in ISO 14001 and/or organic/biodynamic certification.

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<sup>3</sup> Wine Institute of California, 2010

<sup>4</sup> NZ Winegrowers, 2011

Yealands first achieved carboNZero organisation certification in the 2008/09 year, and the company also achieved separate carboNZero product certification for its Yealands Estate wine products in the 2011; this meant that these products could display the carboNZero logo on the bottle labels. Yealands also invested in ISO 14001 certification (achieving certification in 2012), and was a member of SWNZ.

The environmental initiatives at Yealands could be divided into four broad groups:

(1) Design and operation of the winery - rainfall collected from the roof and used to irrigate the vineyards; a wind turbine to generate electricity; pruning from the vineyards burned to produce heat; advanced energy-efficient refrigeration systems; etc.; (2) Everyday operations in the vineyards - hydrogen generators on tractors; grazing sheep (a special breed named “Babydoll”<sup>5</sup>); alternative means of controlling pests; use of compost produced from by-products in the winery, etc.; (3) Improving the environmental profile of the wine product – introduction of plastic bottles in 2012, etc.; (4) On-going innovative environmental projects - production of biochar, etc.

Questions for discussion:

1. How can Yealands maintain growth? Should the company look at new opportunities within the wine industry or expand to other ventures?
2. How can Yealands use sustainability to drive growth?
3. Should Yealands continue investing in sustainability initiatives? Should it expand into social and economic sustainability?

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<sup>5</sup> “Babydoll” is a special breed with short legs. The sheep can graze but are not tall enough to damage the plant buds or the grapes.