

Wine Business Solutions



The Wine Paper 43

December 2016



The Year in Reflection

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WHAT JUST HAPPENED?

What just happened? It's a question most of us ask as another 12 months of our life gets peeled off, seemingly faster than the last. Did we take every opportunity? Did we give it our absolute best shot? Did we learn? Did we grow? Are we better?

What just happened? Well it started with Wine Vision in Bilbao and ended the Wine Vision in Sonoma, the latter being, without doubt, the best wine conference event that I've ever been involved with. Two great bookends to an incredible 12 months.

In the middle, we gained the support from the Australian Federal Government in delivering 6 Direct to Customer workshops to 115 West Australian wine business owners and senior managers, free of charge. Getting to know an entire industry certainly gives you a different perspective to speaking to a sample of it.

I got to present 'Direct to Customer Global Best Practice' at the Business of Wine and Food Conference in Stellenbosch, amongst other venues, another amazing world class event of a different sort. The opportunity to visit South Africa multiple times a year has enabled client relationships to shift to another gear. Given the pace of change and the underlying energy, that has been necessary in order just to keep up.

I was involved in strategic reviews for some of Australia's best businesses including Vasse Felix and Taylors. The overall quality of clients we've been privileged to work with, such as Lanson International, keeps going up. We've also provided support to strategic planning for numerous regional and national organisations.

Many businesses approached us re North American distribution strategy. After years of wondering how we could reliably depict this huge market whilst making it work commercially for us, we finally found the way to produce the first ever insight into what is on independent, non-chain owned restaurants' wine lists in the US – [Wine On-Premise USA 2016](#). [Wine On-Premise UK 2016](#) is also hot off the press.

We're now registered with NZTE so any business that is also registered can attend our workshops and receive training at half the cost. Australian businesses who want to work through the Department and Science Industry and Innovation's Entrepreneur Program can receive consulting advice half funded. Workshops arranged through them are free to attend. South Africa? The government is not so helpful. Instead, we effectively subsidise workshop attendance out of our own pocket.

We're also working on our first ever market insights looking at the independent Off-Premise market. Altogether, I think that we can say that we are better positioned going into 2017 than we were 2016.

I. The worlds of wine, food and tourism are converging.

We can see our client base splitting in two. Those who are ‘productising’ and selling world class, wine, food and / or tourism experiences and those who are not. The difference in business performance between the two groups is stark. Those who are getting on with it are cleaning up.

Those of you that have attended our workshops will be familiar with this picture. We’re always saying that the idea of your brand and the experience people expect to have at your brand’s home should be as a beautiful swimming pool that anyone would want to dive into...



Above – Somewhere in Santorini. Below – the Francis Ford Coppola winery, Santa Rosa



It was amusing, therefore, to see that the Coppola Winery has an actual swimming pool. ‘Francis Ford’ was clever enough to realise that this business of having people stop at your place for a few minutes to sample a handful of wines is a nonsense. Getting them to stay longer leads to greater immersion (literally in this case) and better sales.



Ten years ago, the world of ‘Francis Ford Coppola, Director’ was hidden from view for fear that their wine business would not be taken seriously if his filmmaking legacy were to be incorporated into the tasting room experience. Now, increasingly, businesses are working out how to leverage everything that forms part of the owner’s story and achievements creating a sophisticated, adult experience that enhances the perception and memorability of their brand.

The MacMurray Ranch (now owned by Gallo and another venue for this year’s Wine Vision lunches), is another such experience. Eating steelhead trout that had been pinned with wooden nails to boards and smoked in a fire pit was not what I thought I would do one day when watching ‘My Three Sons’...



2. Get physically and physiologically closer to your customer

After years of saying that if you want to truly understand the Aspirational wine customer, spend more time in the perfume department, it was satisfying to see Brad and Angelina's Miraval Provençal Rose in les Galeries Lafayette next to the Chanel. Finally - proof of concept.

I was having the same discussion with David Dearie just as he was starting with Treasury. David also got it. Now, Sydney International Airport's wine section is the world's most awarded covering a massive area rather than being a few tired, out-of-place-looking grog bottles, as it was before.

The key is that Tourism Australia has spent millions encouraging Chinese tourists to visit wineries and very few of them actually go. Now, they can't miss wine on the way out of the country. Again, wine got physically and physiologically closer to the customer. Penfolds is now the biggest success story in Asia.

How can you use the same thought process to drive success in your business? Start always by asking – what does my customer really want and where would they most like to be? Making your tasting room feel more like a sophisticated, relaxing wine bar is one way. Making your dedicated club area feel like an exclusive nightclub is another. Urban wine experiences are booming. Take Charles Smith's Jet City winery parked right under the runway at Seattle Airport. Constellation bought Charles Smith last month for \$US120Million. Charles also got it.



It might also be that what your customer wants is the complete opposite – to get deeper into the vineyard and be right amongst the vines. There are ways to optimise that experience also.

3. Charge for tastings

In our [Direct to Customer Benchmarking](#) research, we ask for the first time – are you charging for tastings and if so how much? We were surprised to learn that almost half of wineries in Australia, NZ and South Africa are charging. Surprised? because I am constantly confronted by people who say that you can't do it.

Putting the matter well and truly to rest at the Business of Wine and Food Tourism Conference in Stellenbosch was Robin Back (cousin of Charles who owns Fairview). Robin is a lecturer at the University of Central Florida and his research concluded the following:

If you charge for standard tastings, there is no significant difference in sales revenue when compared to not charging. You would, however, have the tasting fee revenue which for some of our clients would amount to more than \$1 Million in extra cash, if charging for tastings at our benchmark average rate.

What the tasting fee also did was eliminate a lot of bad behaviour. People who did not pay for tasting;

- Were more demanding
- Requested more wines than offered
- Requested larger pours
- Requested second pours

For Robin, this confirmed his (and my) view that if you give your product away, it has no perceived value.

Further proving his point, when it came to premium tastings, those that were charged for tastings spent a lot more (R155 average more per customer or around \$A15) when compared to those who were not.

In a more extreme example of value innovation and as a demonstration of just how much value we have traditionally overlooked – one of our McLaren Vale clients now charges guests \$1500 for the privilege of hosting consumer customers for the morning and sharing lunch with them. Only a year or so ago, most wineries would have (almost) paid the customer...

The biggest single and simplest to implement opportunity I see is for wineries to charge for premium tastings.

So many tasting venues I have visited this year, as diverse as a leading Franschoek winery to the visitors centre at Chassagne-Montrachet, withhold their best wines from their best paying customers thereby missing their best opportunity to build their brand.

4. There are clubs and there are clubs

Just as there is so often a difference between what people want to see on our web site and what we are dying to tell them, there is a difference between what we want from club members (a reliable source of cashflow) and what they want.

What do they want? I think that was best expressed by Lulie Halsted in her Wine Vision presentation when talking about the 'Human Givens'.

- Security (That you managed to get your allocation, for example)
- Sense of autonomy and control (that you have choice even when you don't necessarily want that thrust upon you)
- Feeling part of a wider community (the other more relevant and import meaning of 'Club')
- Sense of status within social groupings (Qantas, for example, has over 7 million Frequent Flyers)
- Sense of competence and achievement. (This is where the gentle educative element of what you do plays a pivotal role)

This is where Australian businesses like Rockford and Brokenwood excel and where US businesses struggle. Generally, the harder you ram people into your club, the faster they pop out again. Where the best operators succeed is in creating experiences leveraging all the above so as to be so desirable that customers will fight to stay in. Certainly, Rocky O'Callaghan (Rockford) will tell anyone who will listen that he has been to court at least three times to settle disputes in relation to people that want to be on his list.



5. Why Australia can't get up

The biggest single opportunity in the global wine industry, I believe, is the gap between what Americans believe about Australian wine and reality. Australia has a brilliant emerging wine scene driven by young, passionate people doing some of the most innovative winemaking on earth. Their talent for doing so is matched only by their ability to tell and sell their story - Australia's genuine competitive advantage.

Treasury pouring Penfolds into China is the main reason for growth in Australian wine export numbers. Take that out of the frame and Australia is still flying backwards. So why is it that Australia can't get up off the canvas into which it has been well and truly smashed?

According to our [Wine On-Premise USA 2016](#) research, none of the Top 20 US brands has an average listed price of less than \$30. The Australian Top 20 list has 6. Who is responsible? Well, Treasury and Pernod, of course. Gallo, Constellation and even the Wine Group are not that dumb. They understand that forcing poor product into places it was never meant to go can do no good for their businesses.

The situation is even worse in the UK. This time the chief culprits are Accolade and McGuigan. According to our [Wine On-Premise UK 2016](#) research, Australia dropped its share of listings by 12% 2015 vs 2016 and its prices by 16%. How did it manage to do this? By pushing lower priced, non-regionally designated supermarket brands through the major On-Premise wholesalers. Exactly the opposite of what Wine Australia said that it should be doing, in other words.

Figure 1- Listings of regionally designated Australian wine on UK Wines Lists. Source – WBS Research

Region	2016	2015	2014	2 yr Change
SEA	51.6%	50.4%	33.3%	55%
McLaren Vale	5.1%	7.1%	9.0%	-43%
Barossa Valley	5.0%	6.0%	11.5%	-57%
Clare Valley	2.4%	4.2%	3.0%	-18%
Margaret River	2.2%	2.1%	7.4%	-70%
Eden Valley	1.4%	0.7%	1.8%	-21%
Langhorne Creek	1.2%	2.3%	1.6%	-26%

Ultimately, nothing is going to change unless Australia's four largest companies properly understand what they are doing to the Australian brand and, most stupidly, to themselves. When a good friend of mine left one of these companies after a 16-year stretch, I asked him bluntly why his company refused to make good wine. He just shook his head. You've only to look at what the Jackson family do in McLaren Vale or what the Zonin family do outside of the Veneto to see that it is possible for massive companies to make the world's best wine and to put it into the right channels. Australia did once...

6. The New Zealand brand is going ‘over the hump’. Sirens should be sounding.

There are rumblings in New Zealand. And I’m not talking about earth tremors. Everyone I talk to is becoming increasingly angry and frustrated that a good news story continues to be peddled as profitability leaves the industry.

As one major producer put it to me – “it took 20 years for the world’s worst supermarket buyers (some of whom, perhaps not coincidentally, are now staff for Wine Australia) to punch all of the value out of our brand in the UK. In the US, we went straight in at the bottom”.

Yes, New Zealand has the highest price in supermarkets in most countries it trades in but that is only because production costs are too high to participate in sub-premium categories.

When we look at how New Zealand is positioned in the USA On-Premise, for example, New Zealand has the lowest average price per bottle of any major supplier country.

Figure 2 – Average Listed Price per Bottle in the USA, Top 12 Countries – Source WBS Research

Rank	Country	Ave Price
1	Portugal	\$ 194.53
2	France	\$ 120.50
3	Australia	\$ 73.00
4	Spain	\$ 68.97
5	Italy	\$ 64.37
6	USA	\$ 62.55
7	Austria	\$ 56.66
8	South Africa	\$ 56.27
9	Chile	\$ 56.02
10	Argentina	\$ 50.27
11	Germany	\$ 47.97
12	New Zealand	\$ 42.56

Further, and again according to our research, New Zealand has lost 38% of its listings in the Australian On-Premise market in the last two years and 26% of its UK listings just in the last 12 months alone.

If you are a Marlborough based business who sells mainly through off-premise, why should you care? Well, our research confirms what research across other categories also concludes - On-Premise listings not only build your image, introduce people to your wine idea and ultimately flow through to off-premise sales, they affect a brand’s / region’s / country’s ability to hold price.

As you can see in the chart below, the most successful wine marketers to the UK in 2016 – Spain, Italy and Argentina – were not just the only major supplier countries to grow their share of listings, they were also the only ones to hold their prices.

Figure 3 – Share of Listings and Average Listed Price of a Bottle of Wine in the UK, 2016 vs 2015

Country	2015	2016	Change
Spain	8.7%	11.5%	32%
Italy	20.3%	24.1%	19%
Argentina	3.5%	4.2%	18%
USA	4.4%	4.2%	-3%
South Africa	6.2%	5.6%	-9%
France	29.3%	26.0%	-11%
Australia	7.5%	6.6%	-12%
Chile	9.3%	8.0%	-14%
New Zealand	4.9%	3.6%	-26%

Country	2015	2016	Change
France	£ 55.49	£ 53.41	-4%
USA	£ 33.84	£ 29.30	-13%
New Zealand	£ 30.29	£ 28.17	-7%
Argentina	£ 26.92	£ 27.85	3%
Italy	£ 26.26	£ 26.16	0%
Spain	£ 24.58	£ 24.73	1%
Australia	£ 29.33	£ 24.70	-16%
South Africa	£ 25.36	£ 23.48	-7%
Chile	£ 19.95	£ 19.62	-2%

It's time, therefore, for a major shakeup, so to speak. The difficulty with that is, when people have been doing one thing since the inception of this very young industry, it's easy to believe that there is only one thing to do. The irony is that most people running these businesses today didn't drink wine when they grew up but because of their past success, they are more conservative than even their European counterparts.

It's time to tell a different story. One of quality, subtleties, nuance and individuality - terroir, not tractors.



For larger producers especially, this means planting new vineyards, new clones and with new planting regimes on new sites now, not waiting till vineyards are 30 years old to repeat the last 30.

7. There is closure on closure

The research is in. There has now been enough time passed and a big enough sample of wines aged to speak with confidence about the efficacy of the various closure types.

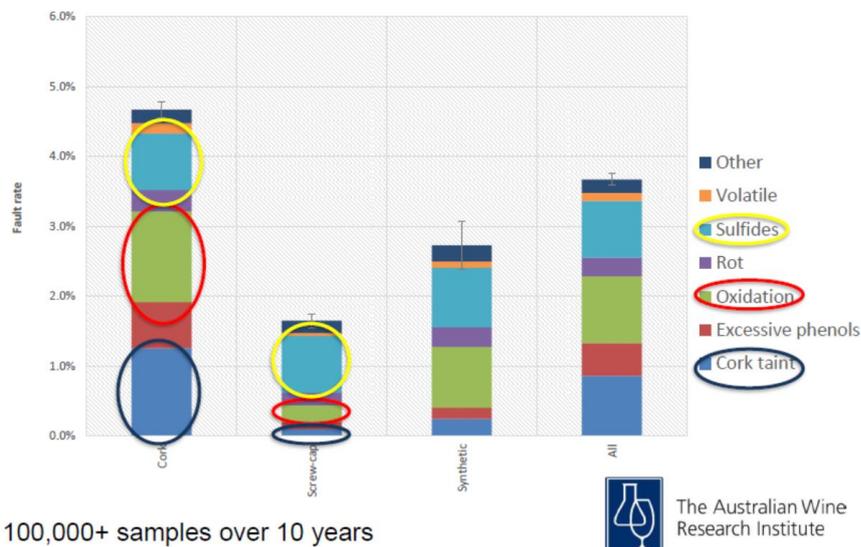


Eric Wilkes of the AWRI presented at Wine Vision Sonoma, this now very famous slide showing the range of colour 63 months post-bottling, for Semillon wine under 14 different closures. What it shows is that there is not a lot of difference in terms of closure failure and levels of oxidation between screw cap and high grade cork. Both have about a 1% rejection rate at the International Wine Challenge, for example.

That has to be good news. There are a lot of markets that simply won't accept screw cap and our winemakers ought to be able to have the creative freedom to use different closures to achieve different effects on the wine they make, particularly at the top end.

By omission, what that means, of course, is that there is a lot of substandard results being achieved using regular corks and corklike closures. So how does it work out overall? The chart below makes it clear.

Fault rates in international bottled wines



8. The true meaning of sustainability

I first got involved with a major sustainability initiative when I was MD at the New Zealand Wine Company (now the Foley Wine Group). We were the first winery globally to achieve Carbon Neutral status. This was not driven by ‘hippie greenie activism’. Rather, it was the best use of our winemaker’s intellect during down time in relation to how we could save money and create less mess. To be honest, I wasn’t that engaged with it. It seemed more like another corporate governance box that I could tick rather than something that was actually going to save the world.

So, when I read the Wine Vision program and saw that the 2nd day would start with a panel talking sustainability, I wasn’t expecting much.

When we heard the panel speak - Hugh Reimers, the (Australian) President of Jackson Family Wines, Avram Deitch, the (American) Global Marketing Manager, Yealands Wine Group and Karissa Kruse, the tour de force President of Sonoma County Winegrowers – for me, at least, it was life changing.

You see, sustainability isn’t just about protecting the environment. It’s about staying alive.

In the US, the 2nd biggest sustainability issue is water. We’ve all heard about that. The number one issue, however, is people. Bizarrely, the single biggest challenge North American wineries face today is finding and retaining enough (Mexican, mainly) people. This at the very time Donald Trump is threatening to lock them all out.

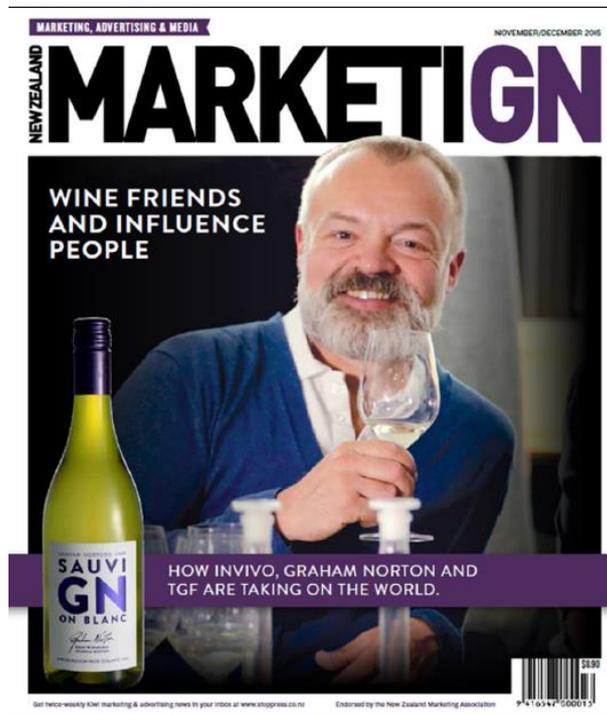
Peter Yealands’ father reckoned it was about leaving more wood in the wood shed for the next generation. Peter Yealands himself is, I am sure, more motivated by how much fun he can have with pigs, chooks and miniature sheep whilst attempting to solve every environmental challenge known.

Most impressive of all was the Jackson Family’s environmental effort. There you can see real intent about insuring their survival and at huge scale.



9. You can still do it.

No matter how mean, tough and crowded the wine market looks, it is still possible to start from absolutely nothing and build a global wine business. Invivo provide us with a brilliant working model as to how to do so. Using crowd funding and celebrity endorsement, they made it work. By challenging every aspect of how the traditional wine industry goes about its business and innovating, they found the winning formula.



10. You can do something else.

The Sebastiani Family is one of the most famous in wine. But what happens after you sell your business? What's next? I have always said that if wine industry people applied the same amount of passion, intellect, and hard work to anything else, they would be filthy rich.

Jon Sebastiani told the Wine Vision Sonoma audience about how, when he left the wine industry, he thought me might look for a category that had less competition. That led him to beef jerky, a category with just three competitors, none of whom were offering anything healthy or innovative. That led to the creation of the [Krave](#) brand. Four years post inception, he sold the company for a quarter of a billion dollars.

Finally – For those of you that want to join me in battling on, we're not going anywhere. We love this industry. We're here to help and we look forward helping you in every way we can in 2017.

Wishing you and your family a wonderful Christmas Holiday break and a prosperous New Year.

The “Top Ten Tips” for Building Better Wine Businesses.

One - Start by understanding your customer value proposition. Only part of this stems from your company’s unique heritage and / or personality. To be successful, this needs to be strongly linked to what your customers ultimately want from the experience of your brands. There is some excellent research on this that is publicly available. Getting it right is therefore not out of the reach of small companies.

Two - Once you understand what customers value most, you can then remove what they don’t want (thereby reducing costs and freeing up cash), focus your communication on what they do want (often at no additional cost), differentiate your company on the basis of fulfilling customer needs more accurately than any competitor (again, often at no extra cost) and raise prices (because your offering is more highly valued)

Three - Always be asking the question – “If I could start with a blank canvas today – what would our wine business look like?” It’s all too easy to let existing assets, existing product lines and existing ways of doing things blind us to what it is that our consumers value most. Often, it’s simplicity. Complexity usually adds to costs and often only serves to confuse customers. Retaining unnecessary or irrelevant product lines, assets or business processes is the worst contributor.

Four - Make everyone in the company accountable for securing customer preference. This is not just the job of marketing but of everyone in the company, the owner most particularly. Make this the focus of the way every employee innovates their job processes on a daily basis.

Five - Invest in relationships. This is particularly so with major distribution partners. Make sure sufficient time and money is invested before demanding results. Be prepared to invest up front in bringing them to your home base and entertaining them in order to build enduring friendships.

Six - Make all employees champions for profit. Develop a culture of honesty around net revenue. Make sure everyone knows the actual price achieved net of all discounts, rebates, bonus stock and anything else that might otherwise cloud the true profit picture. Keep them focused on reducing costs but let them know that a percentage increase in wine company revenue is, on average, twice as effective as the same percentage decrease in the cost of goods sold and 3-4 times as effective as the same percentage saving in operating expenses.

Seven - Optimise your pricing mix. Focus first on selling more, higher margin product in high value markets to high value customers. Beware of people in love with “big volume”. Big numbers make for big stories but often mean a lot of running around for no additional profit.

Eight - Build better business intelligence gathering systems – most companies are good at monitoring their own press. Very few have effective systems in place to monitor competitors, track changes in consumer preferences and turn customer feedback into customer value added.

Nine - Build 5-10 year Strategic Plans, forecast rolling 12-month budgets, link them to the most relevant KPIs and tie remuneration to these, wherever possible. Everybody knows they should do this. Few do. The difference in the performance of companies that do is enormous.

Ten - Watch your cashflow – building a cashflow forecast is a relatively easy exercise with the right software and some quality assistance. Some people survive years of losses but you can only run out of cash once. In a cash hungry business like wine – Cashflow is not just King but Oxygen.

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