Wine Business Solutions

The Wine Paper 62

February 2021

Revive Reset Rebound

It's that time. That time when we're all forced to stop for a few days, catch our breath, put a line under one year and start seriously planning for the next.

Fortunately, that's recognised by a number of the wine world's leading providers of business intelligence.

We're all busy, so I thought it might be helpful to you to consolidate some observations.

In this paper, we'll look and the UK and US markets, two of the most important but worst affected by COVID and see how they finished 2020.

We'll also discuss the leading edge in DtC and Digital and see where that is heading.

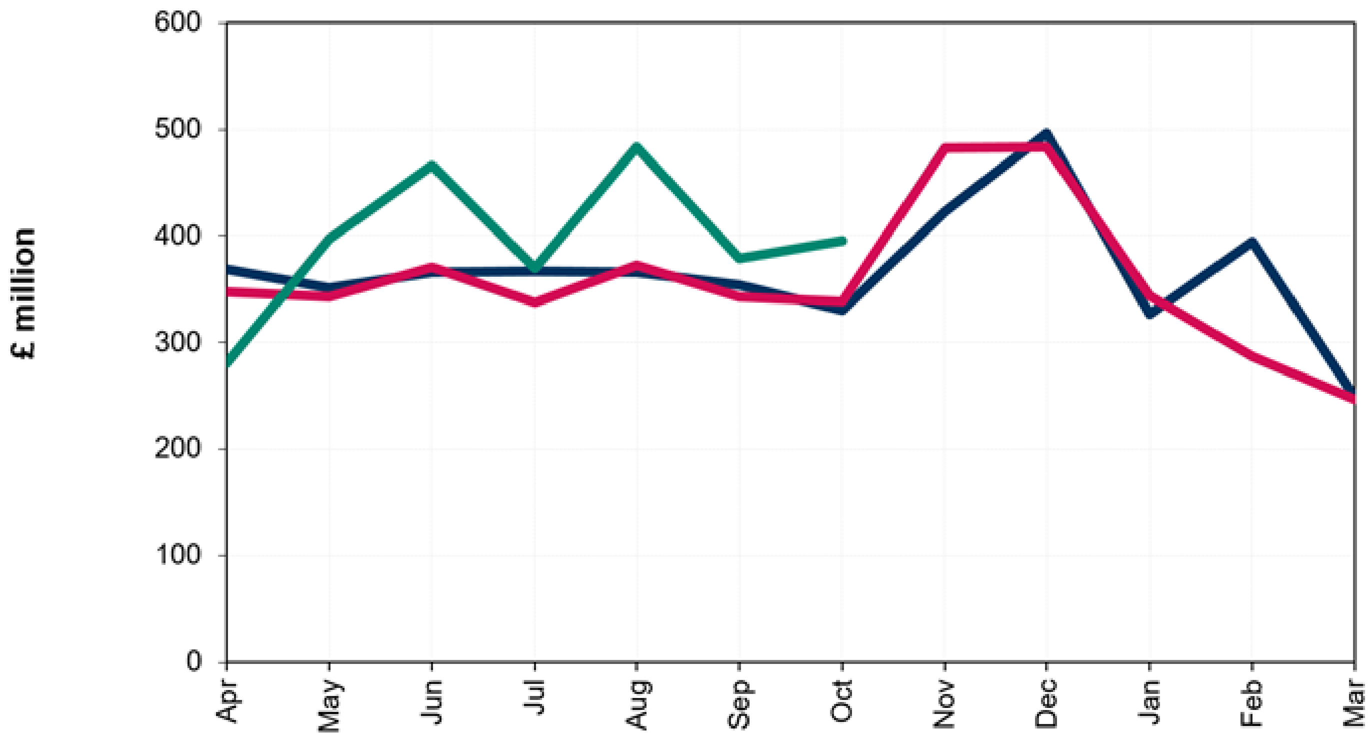
Last year was tough, this one starts tougher but, in nearly 20 years of doing this, I've never seen more opportunity for businesses to transform and win. So, let's dive in.

COVID has hit the UK hard. There can be no sugar coating that.

As has been the case in all markets that we measure, there has been a huge amount of, at times, contradictory and /or politically motivated press, utilising limited or biased data.

So, what does the most reliable data available tells us? Perhaps one of the only good things about the liquor excise system in the UK, as far as suppliers and resellers are concerned at least, is that it provides something close to a single source of truth.

Figure 1 – Wine Duty Receipts for the 2020-21 Financial Year to October – Source HMRC



Wine Duty receipts for the British financial year commenced April 1st until the end of October 2020 were up 13% compared to the same period in the previous year.

This makes sense when you consider that Kantar report that wine sales value in UK supermarkets rose a staggering 19%, equating to just under an additional billion pounds in sales for the 12 months to 4th of October.

To cancel out those gains, using our 19% of total wine volume figure as a guide, the On-Premise would have had to have been down by 80% during the entire period which, of course, it wasn't.

Figure 2 – Percentage of Known Outlets Open. Source – CGA and Alix Partners Recovery Monitor

	July	August	September	October
All Outlets	**62%**	**76%**	**80%**	**70%**
Bars	56%	67%	73%	62%
Casual Dining	63%	84%	87%	82%
Community Pubs	82%	89%	92%	77%
Food Pubs	88%	94%	96%	87%
Restaurants	59%	79%	82%	76%
Nightclubs	37%	52%	56%	43%
Licenced Hotels	54%	80%	83%	73%

Restaurants were operating normally up until the first lockdown on the 24th of March and most shut, but some not entirely, until the 4th of July.

More than half of diners took advantage of the British Governments' 'Eat Out to Help Out' scheme in August taking pubs, particularly, back to near pre-pandemic levels, a phenomenal result, it must be said, all things considered. Since then, the number of open sites has steadily tailed off. With the UK now in its second hard lockdown and the vaccine rollout still in its early stages, things must appear bleak.

On the supplier side, the situation is more varied. Businesses' ability to 'pivot' (there's that annoying overused word again meaning, in this case, sell more into the off-premise and via digital) varied enormously.

Some of our clients did quite nicely. At the same time, a number of suppliers failed. Fields Morris Verdon, the wholesale arm of Berry Bros, closed for good. Many of its brand principals elected to move across to Bancroft. Some did not. Jascots went into administration and was bought by Freixenet Copestick. We observed and reported both FMV and Jascots having problems for a long time before COVID hit.

Understandably, there are those who are asking whether the British On-Trade will ever be what it was again who, at the same time, admit that they have no idea.

All they need do is pretend to book a restaurant in Sydney or Auckland this Friday night. Likewise, those in wine regions suffering the worst of COVID lockdowns ought to try finding an AirBnB room in Mudgee or Martinborough on a weekend.

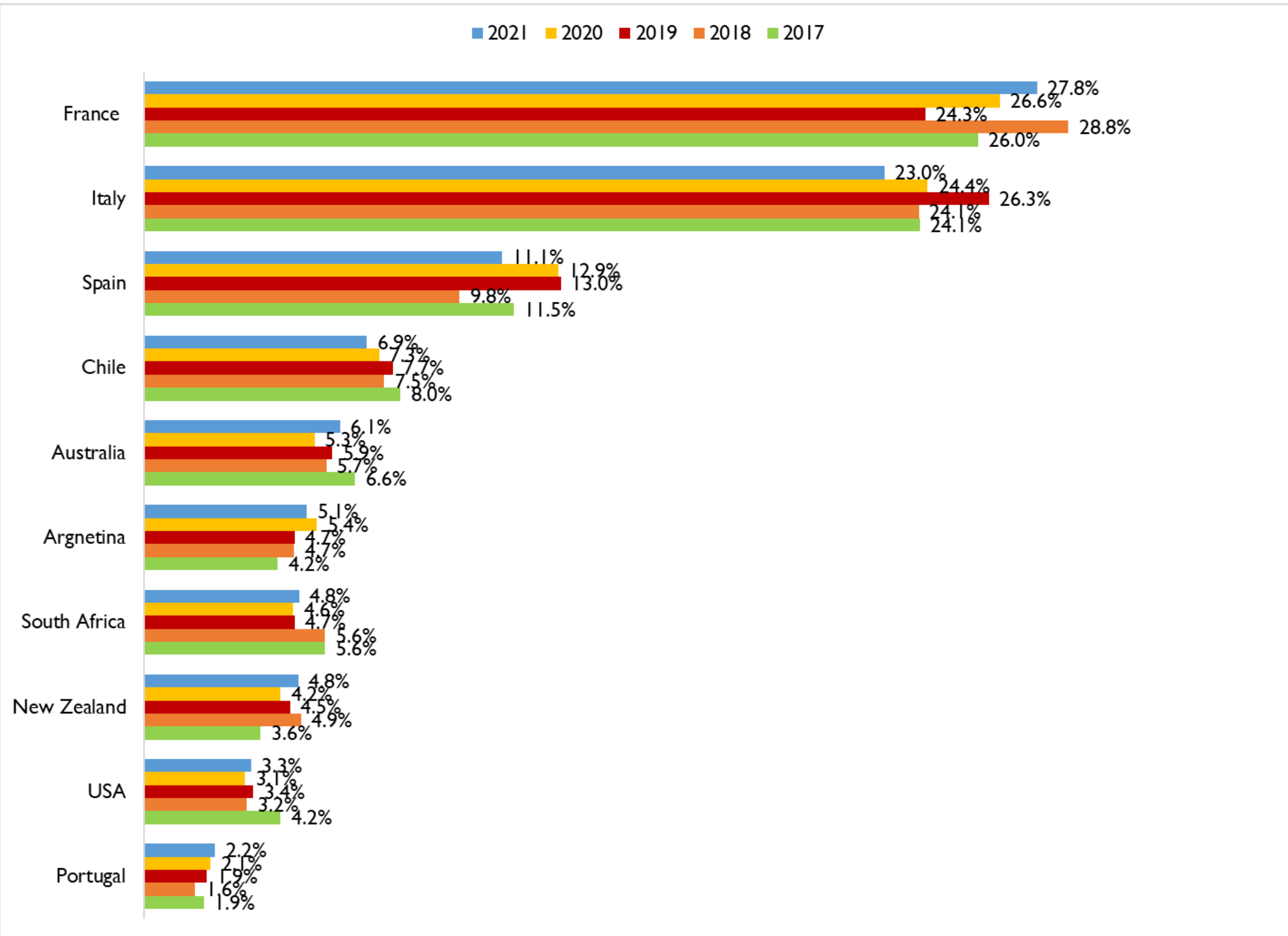
Do that and you'll quickly confirm that there is nothing that your key target audience wants to do more than get back to sharing wine and food with friends. Best to be focusing now on getting ready to run fast when that can happen. We've seen wineries caught out by the whiplash-like effect this can have.

Figure 3 – The Average Listed Price of a Bottle of Wine by Country

Country	2021	2020	CHG
France	£ 63.37	£ 56.86	11%
Austria	£ 61.78	£ 48.93	26%
USA	£ 55.75	£ 43.06	29%
Average	£ 43.88	£ 39.40	11%
Portugal	£ 43.78	£ 36.02	22%
UK	£ 42.78	£ 50.26	-15%
Germany	£ 39.85	£ 37.17	7%
Italy	£ 38.09	£ 33.85	13%
New Zealand	£ 33.36	£ 33.10	1%
Spain	£ 32.24	£ 29.32	10%
Australia	£ 32.08	£ 29.26	10%
Argentina	£ 31.45	£ 31.49	0%
South Africa	£ 28.60	£ 27.95	2%
Chile	£ 22.93	£ 23.33	-2%

What, then, is going on with pricing and list share in the UK? We've just released our [Wine On-Premise UK 2021]() research this week and the results might surprise you. Whilst all of this horror has been happening, there has been one of the biggest surges in prices that we have seen since we started doing this research.

Figure 4 – Share of Total Wine Listings by Country – 2017 to 2021



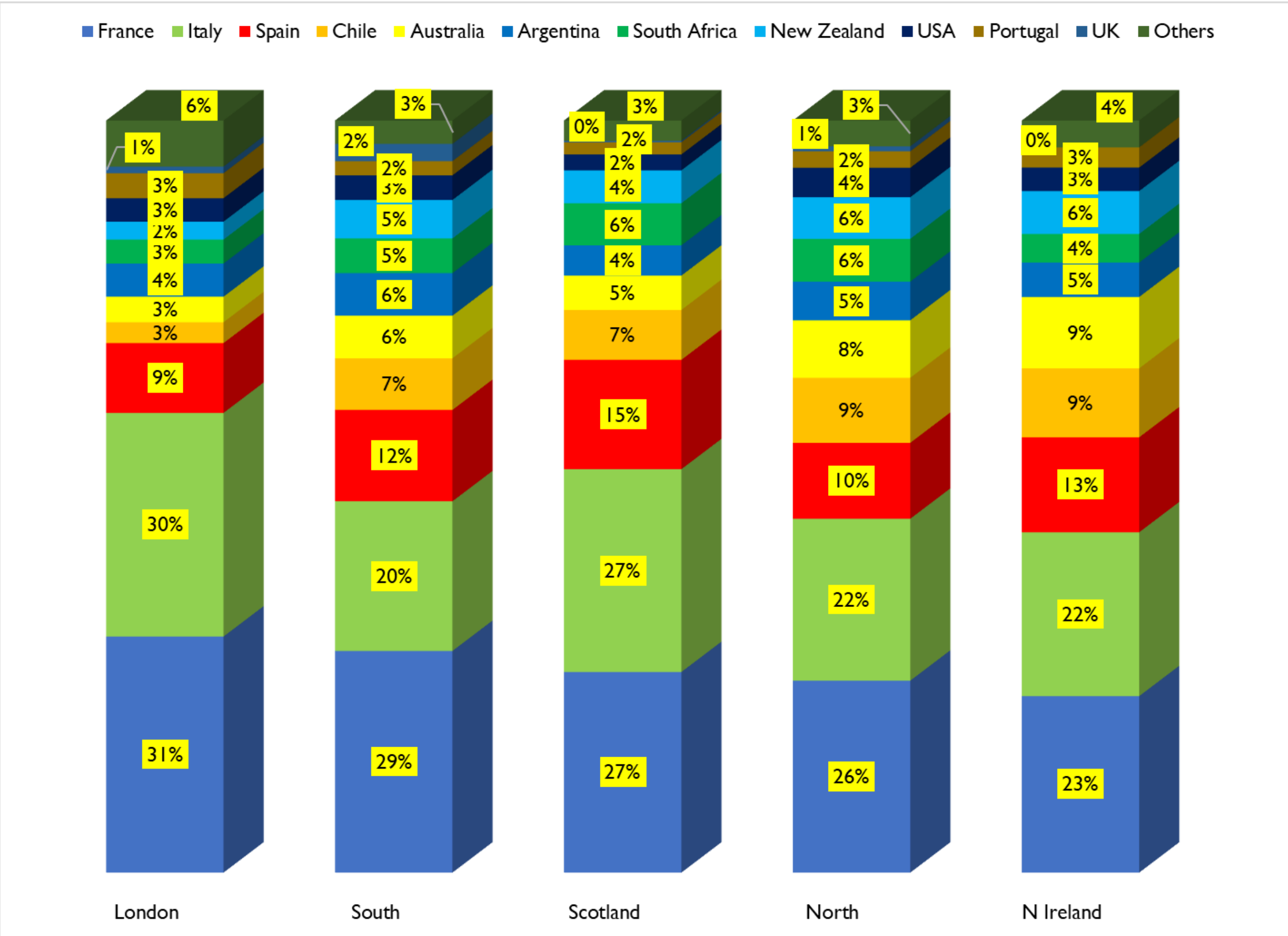
As we have been predicting and as is the case in all markets that we measure, France is the winner under this scenario. You position ahead of the market and you reap the reward. Simple. More high-priced wines places a country, region or producer in the best position to be sustainable and invest for the long term.

The big run of fashion and experimentation with 'Latin' wine, led by Italy, peaked two years ago and has rolled back taking Spain, Argentina, and Chile (though their fate is more about pricing) with it.

As in all markets that we measure and in other channels, consumers have reverted to the more trusted and familiar during COVID. Australia, New Zealand, the US and South Africa have all benefited. No one benefited more than France, however, its trusted Appellations of Bordeaux, Burgundy, the Loire and the Rhone, most of all, benefiting from decades of consistency, familiarity and fixation on improving quality.

One clear exception is Natural / Organic / Biodynamic / 'New' wines, especially in the London market. It would be a mistake to think that all the pre-existing major trends weren't continuing to wield influence.

Figure 5 – The Share of Listings Held by the Major Supplier Countries by Market



Note - Our Australian report will be out shortly and that Wine On-Premise USA 2020 uses data from later last year vs 2019.

Figure 6 – Preliminary US Wine Sales Volumes for 2020 – Source Silicon Valley Bank / BW166

	2019 domestic	2019 imported	2019 total	2020 domestic	2020 imported	2020 total	% change domestic	% change imported	% change total
Still wines	255.38	83.17	338.55	258.94	83.95	342.89	1.39%	0.94%	1.28%
Bulk imports	21.84		21.84	24.00		24.00	9.89%	0.00%	9.89%
Sparkling wine	12.54	16.60	29.14	12.76	15.65	28.41	1.75%	−5.72%	−2.51%
Subtotal	**289.76**	**99.77**	**389.53**	**295.70**	**99.60**	**395.30**	**2.05%**	**−0.17%**	**1.48%**
Flavored wines*	7.48	9.75	17.23	5.84	25.61	31.45	−21.93%	162.67%	82.53%
Total	**297.24**	**109.52**	**406.76**	**301.54**	**125.21**	**426.75**	**1.45%**	**14.33%**	**4.91%**

*Includes sangria, coolers, agave-based wine and flavored wines mostly from Canada and Mexico.
Note: Chart produced 11/2020. Subject to downward revision if December sales are light.
Source: bw166

The US is the only market, globally, with reliable, multisource data across all major channels. This is important because if, for example, Nielsen make a statement, there is always IRI and bw166 there to act as cross references. Each pressures the others into being accurate, sometimes publicly.

It is a lot easier, therefore, to see where you are going here, in headline view at least, than it is in the UK and most other markets that we would otherwise think of as developed.

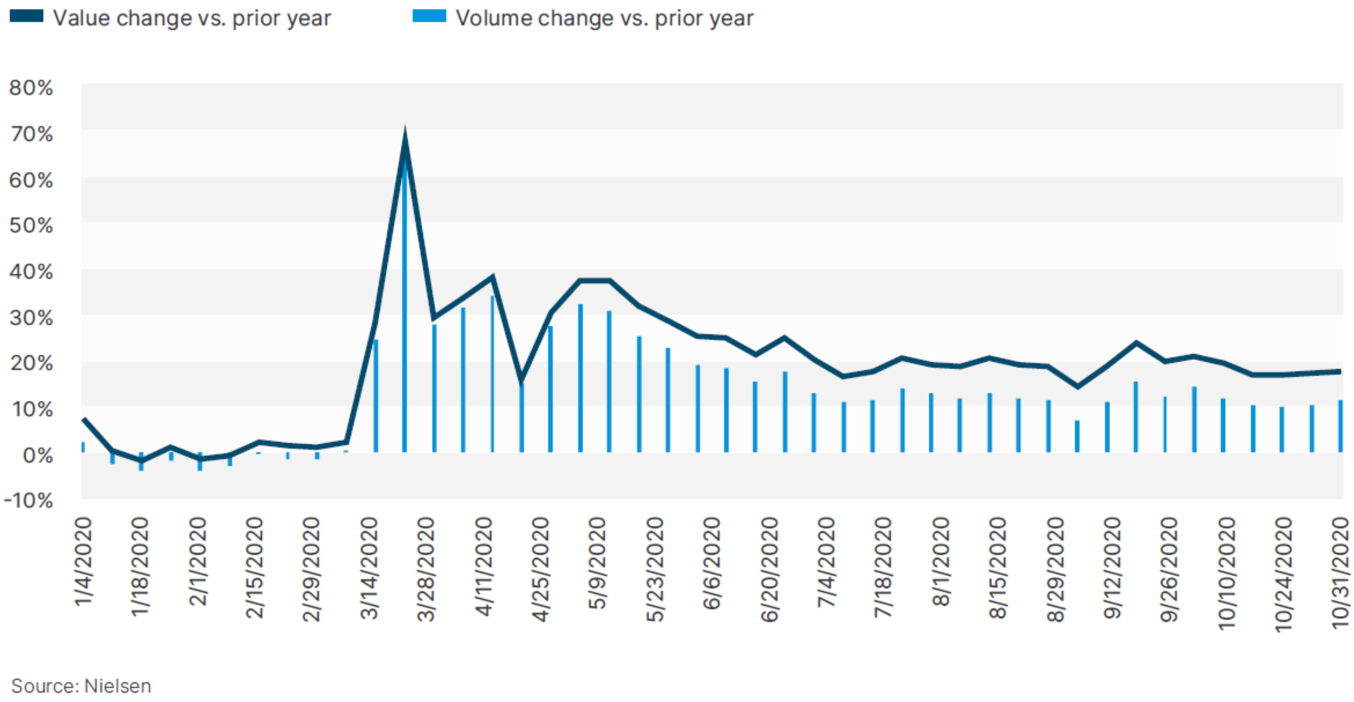
Equally, there is endless commentary, a lot of it high quality, on all the trials and tribulations faced in the US during the last 12 months. I will not, therefore, waste your time by raking over any of that again.

The US did not see the sort of sustained uplift in total sales witnessed in the UK, Australia, New Zealand and other developed markets that we measured during COVID. Nor was it plunged into hell like our dear friends in South Africa who, remarkably, still grew exports whilst their domestic market was shut down.

The sustained uplift in sales value in supermarket was exactly the same as in the UK – 19%. We see this, time and again, that consumption is driven by global patterns much more so than local market differences.

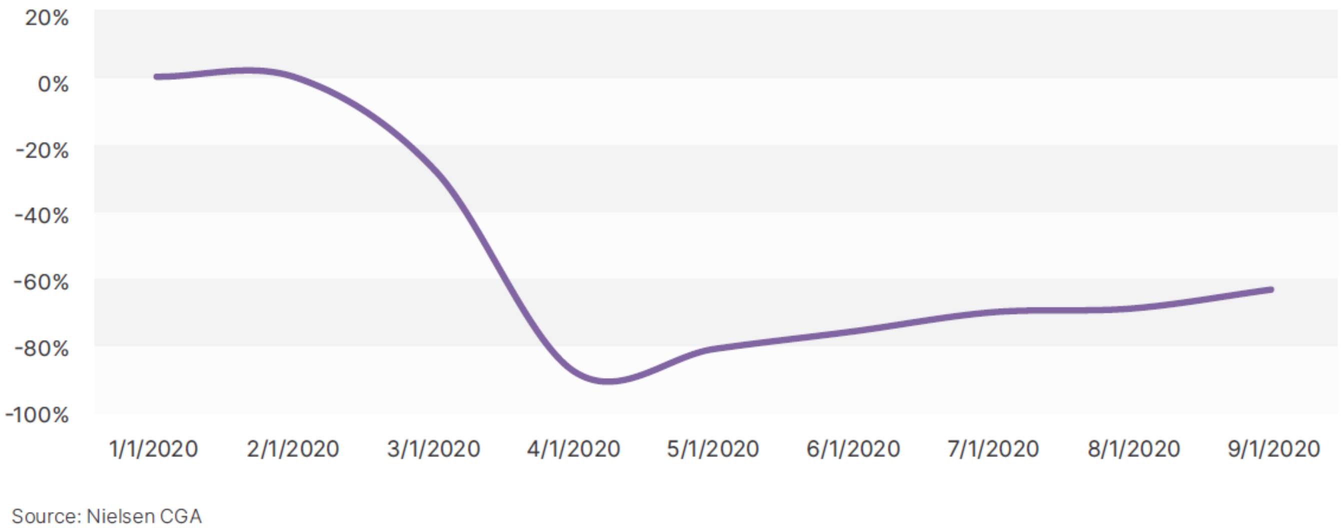
Supermarkets, bottle shops and restaurants vary little in concept from one country to the next. There is more relevance in monitoring the free information available in relation to major markets than many think.

Figure 7 – Off-Premise Volume and Value Change for 2020 – Source Nielsen



So, what are the key factors that left the US uplift in volume sitting only in line with population growth?

Figure 8 – Year on Year Change in On-Premise Wine Sales - Source Nielsen CGA



Unlike the UK and despite what we all might think from watching the politics on the news every night, the US On-Premise was locked down and knocked down harder to nearer that 80% level that I mentioned earlier that would be necessary to cancel out their (again 19% roughly) On-Premise sales by volume.

DtC and Digital would then have to have grown in order for there to be an increase in total sales, right? Silicon Valley Bank report an average nett DtC growth across all channels and across its annual survey participants of - 7%. It all then adds up.

Figure 9 – Year on Year Growth in Direct Channels – Source – Silicon Valley Bank / VinSuite

Channel/segment	Total sales growth	Total number of orders	2019 average order	2020 average order	Growth in average order
Club	−5.18%	−8.98%	$184.68	$192.38	4.17%
POS/tasting room	−37.43%	−42.31%	$66.35	$71.96	8.46%
E-commerce	153.04%	190.67%	$280.50	$244.19	−12.95%

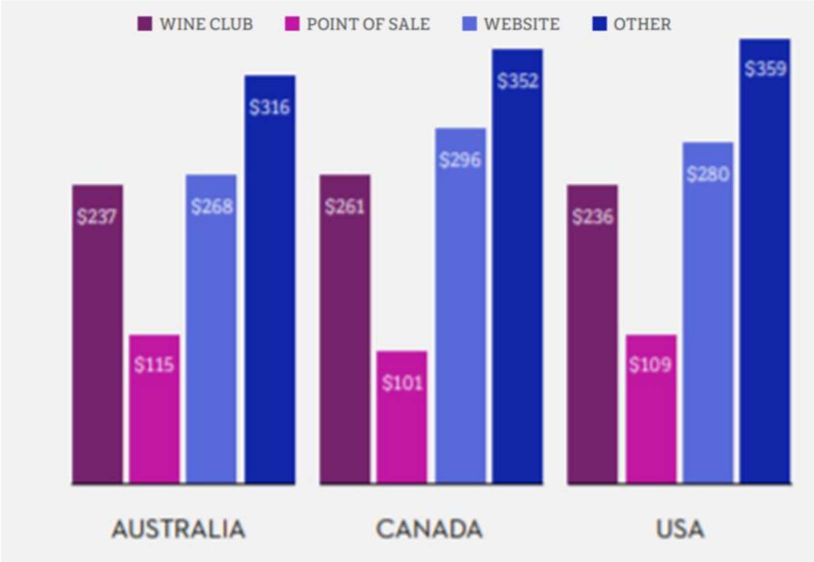
Source: vinSUITE

As you would expect, growth in the various channels varied enormously due to lockdowns and other restrictions.

Again, looking to multiple sources, SOVOS have just released their 2021 Direct Wine Shipment report. DtC Shipments were up 27% and value up 15% for the year to December 2020. Note that 'shipments' and ex winery sales are two very different ideas. As we have been saying in our workshops for years, the total value of US DtC sales prior to COVID was closer to $US6Billion, around double the shipment figure. Of all the businesses analysing the US market, only Rabobank sought to comment. This is critical to understanding what digital and / vs direct is, measuring it and assessing the ramification for other markets.

Figure 10 – Total US Winery DtC Sales. Source, Rabobank

Figure 11 – Average Sale by DtC Channel – Source Commerce 7



In a nod to diversity and bringing on board much needed fresh insight, Devin Joshua, Managing Director, Merryvale Vineyards, joined the Silicon Valley Bank panel this year. He pointed out something that we have been evangelising about for years.

Even though that number for digital sales is huge (over $280 average value pre COVID), losing 13% off the top line is roughly the net profit margin on those sales. Usually, attaining those sales has been so heavily invested in that that revenue number needs to be maintained for that business to remain profitable.

Now before I lose you and you say to yourself that those sorts of numbers only apply to the US, take a look at the table above. Again, cross referencing and looking across markets, you will see that Commerce 7's numbers closely match Vinsuite's and that there is little difference across Australia, Canada and the US.

Why is this happening? As more millennials start to shop online, that has an effect. That is always discussed. We all know what consumers buying more Sauvignon Blanc, Rose and Pinot Gris means but, in these delicate times, probably are not allowed to say. The key influencer, and this to my way of thinking is the most important one, is that in digitising the experience, you risk degrading it. In other words, all the value you create by elevating the experience at cellar door is what enables wineries to charge what they do.

The important message, therefore, is that even though there is an army of people urging you take your business 'digital' which, in their minds means behaving like other online retailers, this would be a massive mistake. As you take your business digital, and you must do and fast, the trick is to retain all the aspects of the best version of yourself possible. By that I mean your uniqueness, your quality message but most of all the highly personalised way in which successful DtC wine businesses interact with their customer. This requires great thoughtfulness, innovation and avoidance at all cost of depersonalisation and the generic.

It won't be any surprise at all, then, to learn that this is the focus of our three part webinar series of Australasian wineries coming up next week. Note that we will run the same program for South African and European wineries in April and the Americas later in the year.

During 2020 we were privileged to work directly with over 60 wine businesses on making this digital transformation as well as broader business change. The creativity, innovation, and resoluteness with which our clients responded in the face of extreme uncertainty has been truly inspiring. We all learned a lot during that time. The program, incorporating these learnings, will be as follows:

Workshop One – World Beating Strategy – February 9th

- The DtC Opportunity for 2021 and Beyond.
- Starting with the End in Mind – How best to plan for and achieve success.
- Your DtC Pipeline - How all the DtC elements work together to drive sales.
- Gaining more Customers – How to significantly improve the quality and quantity of your audience.
- Optimising the Customer Experience at Cellar Door and Online – To maximise repeat sales.
- Keeping more Customers - Developing long-lasting customer relationships.

Workshop Two – Leveraging Latest Technology – February 16th

- Turning your web site into the 'growth engine' for your business.
- What's New - All the latest tools, tips, and technology you'll need to grow your business. (Note – as always, we'll do a full review of wine specific and other software).
- Where to Focus – With so much possibility, what is most worth doing and why?
- How and when to use Automation.
- Data Analysis – where is the gold?

Workshop Three - Integrated Communication and Sales Strategy – Feb 23rd

- Wine Club Global Best Practice
- Optimising Social Media
- More effective Email Marketing
- How and when to use Phone Sales
- When and how to use Paid Social

Follow this link to register. As always, we're here to help you build a better wine business.

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.

Wine Business Solutions

Phone +612 9744 8332

info@winebusinesssolutions.com.au

http://winebusinesssolutions.com.au