

Wine Business Solutions



The Wine Paper 10
January 2010



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THE OPPORTUNITY IN THE US ON-PREMISE

There can be no doubt that 2009 was a rough year for the US restaurant trade. It is important, I think, to look at the numbers and set aside the hysteria. Yes things will never be the same. They never are.

The fundamentals of the US market are, however, still very sound. It continues to be one of the best opportunities globally for wine sales at over \$15 retail and therefore, building a premium brand in the on-premise.

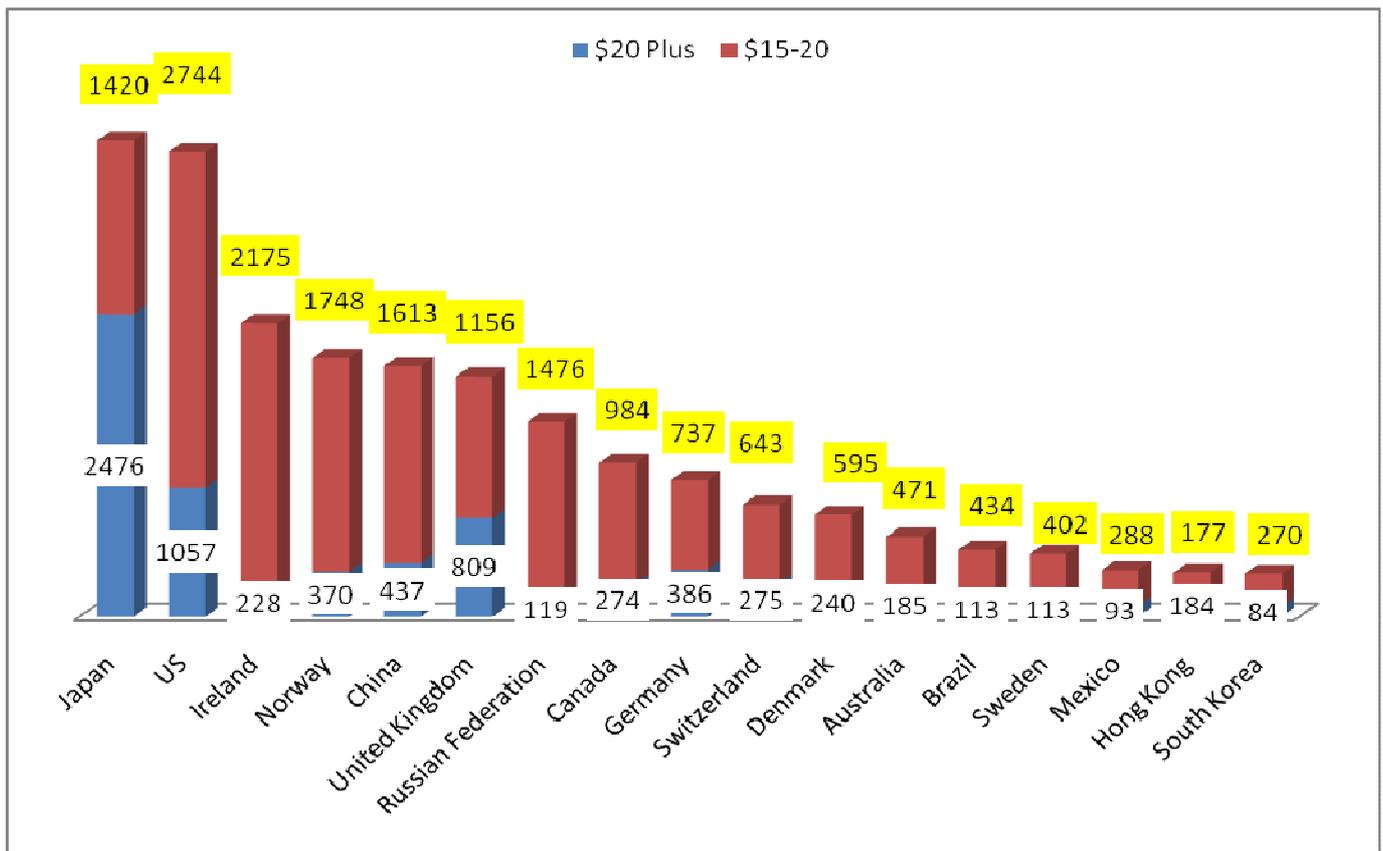


Figure 1 – Top 15 destinations for wine retailing at more than \$15 – '000s 9 litre cases – Source IWSR data for 2008 YE

Note - The best destination is, of course, Japan. I can almost hear the hearts sink when I point this out in workshops as most people view it as simply too hard a market. If you are in the business of selling wine with a price point of more than \$20, however, Japan imports two and a half times the next best market – the US)

Since 1990, US per capita consumption of wine has been grown by 50%. Today it's still only 3 gallons (or less than 12 litres) per head which is around about half what people in practically every other developed country drink.

On top of that, there is the encouraging news that Millennial drinkers are taking to wine younger and more enthusiastically than any other generation in US history.

U.S. Adult Per Capita Table Wine Consumption vs. Population Growth



Source: U.S. Census Bureau, Beverage Information Group

*Estimate

Figure 2 – US Per capita consumption and population growth

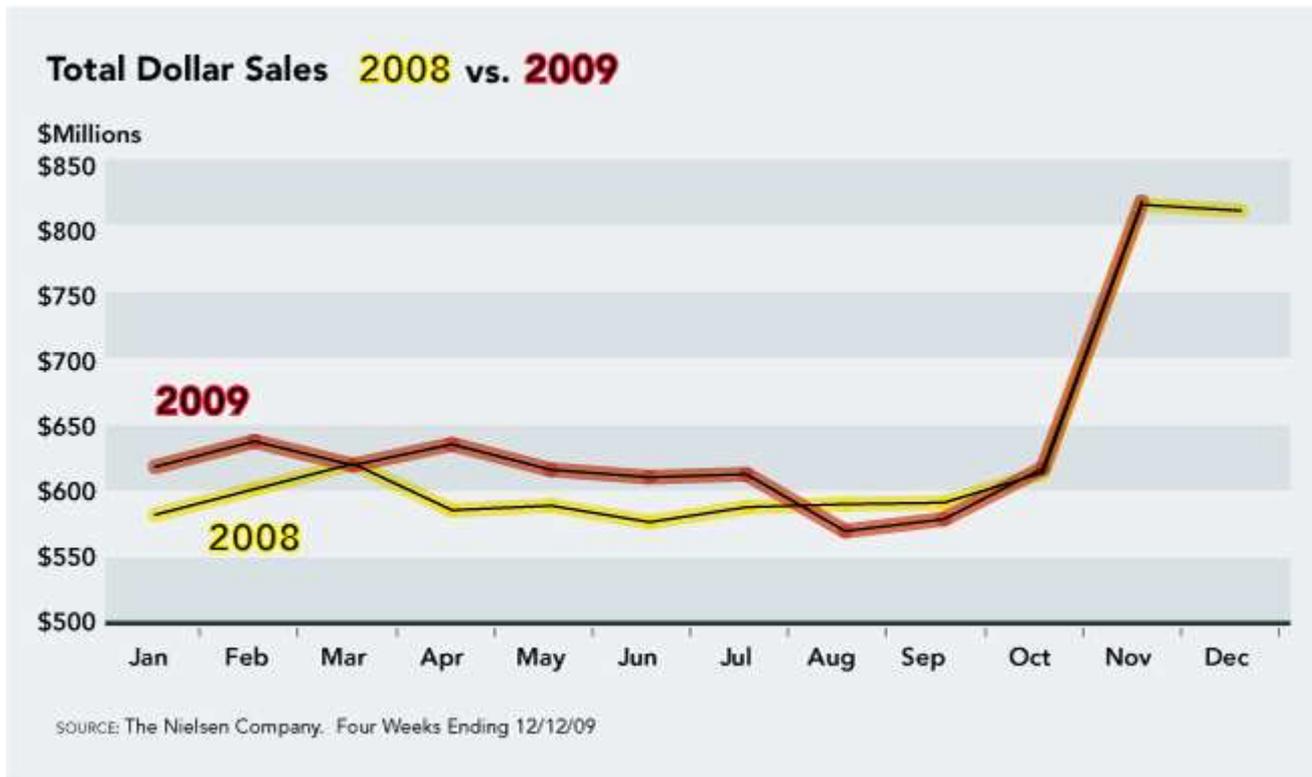


Figure 3 – Monthly US Off-Premise wine sales

According to Nielsen, total wine sales in the US were up 3% for the year to the 12th of December '09. Domestic sales were up 4.6% and imports off by 1%.

The most recent quarter did not look quite so good for imported wine but wines at higher price points are having their decline arrested. This has to be viewed as encouraging as it's clearly not an issue of money so much as imported wine re-establishing its value proposition at premium price points.

Dollar Value Percent Change vs. Year Ago			
	4 WEEKS ENDING 12/12/09	13 WEEK ENDING 12/12/09	52 WEEK ENDING 12/12/09
Total Table Wine	(0.3)	0.5	3.0
Domestic Table Wine	1.9	2.3	4.7
Imported Table Wine	(5.6)	(4.0)	(1.0)

Figure 4 – changed in the value of US Off-Premise wine sales

Given the shilacking that the economy has had overall, the exit of Diageo from the Bordeaux futures market, the weakness in the \$US and whole host of other factors that have buffeted the US wine market in the last 12 months, things could agruably be much worse.

Dollar Value Percent Change vs. Year Ago			
Price Segments	4 WEEKS ENDING 12/12/09	13 WEEK ENDING 12/12/09	52 WEEK ENDING 12/12/09
Total Table Wine	(0.3)	0.5	3.0
\$0-2.99	(1.2)	0.3	3.9
\$3-5.99	4.1	5.1	9.0
\$6-8.99	(6.0)	(4.8)	(1.5)
\$9-11.99	2.8	3.6	5.7
\$12-14.99	0.3	0.5	1.4
\$15-19.99	(2.2)	(3.0)	(0.8)
>\$20	(2.3)	(3.3)	(5.2)

Figure 4 – changed in the value of US Off-Premise wine sales at various price points

The question of price sensitivity gets a lot more interesting when you look at the relationship between price and sales. Cornell University published a study last May looking at US restaurant wine prices verses sales volume. In casual dining situations, they found that the higher the average price charged the less wine the outlet sold. When they looked at fine dining, however, they found that sales actually increased up to a certain point. This was a major theme of our “Making Money in the Wine Industry” workshop series last year. If you don’t have an acute sense of what that point is, you’ll give up a huge amount of profit along with any chance of developing a competitive advantage through reinvesting better margins.

It also reflects that in choosing a fine dining experience, consumers adopt a different mind set. I was talking to a client last week in the Hunter Valley and asked him how his food business was doing. His revenue was up by 45% so I was of course curious to know what he had done. He had been taking our advice but was struggling to lift prices in the casual café environment of his restaurant. He then employed a better chef and reformatted to offer degustation dinners. Suddenly there seemed to be a whole different ceiling to what he could charge. He had moved from providing “lunch on the run” to delivering an experience that might never be forgotten.

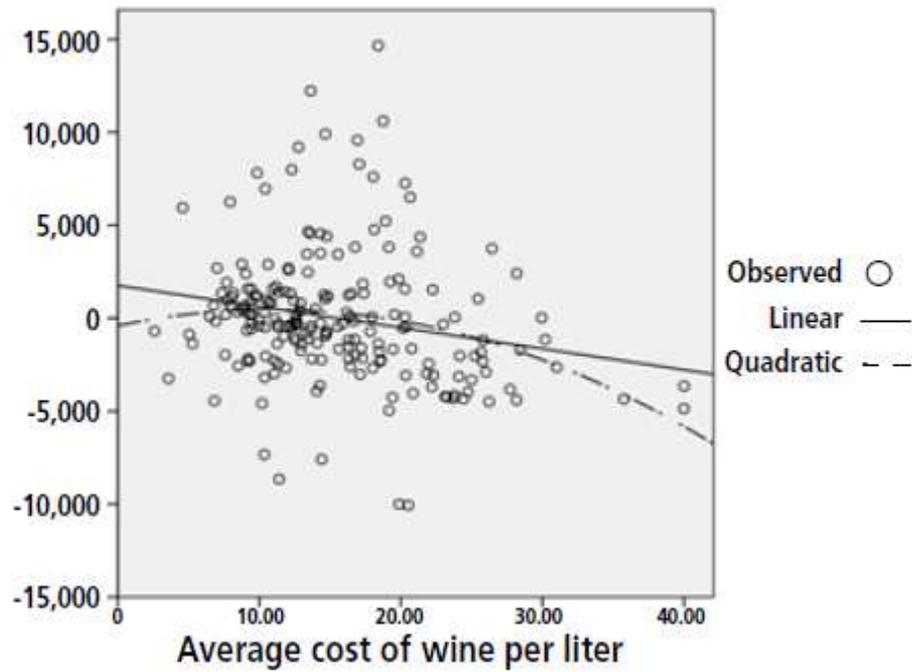


Figure 5 – Average cost per litre of wine ex wholesale (not retail) vs volume sales variance to average – **casual dining**

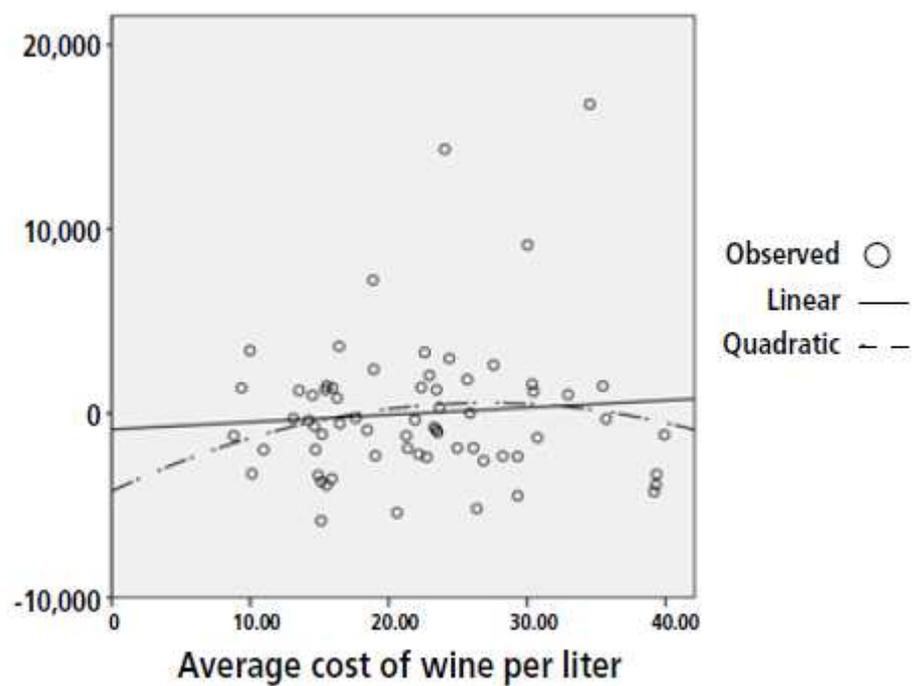


Figure 6 – Average cost per litre of wine ex wholesale (not retail) vs volume sales variance to average – **fine dining**

Some other handy ideas that emerged from the Cornell study are that restaurants sold more wine if they:

- Omitted dollar signs from their pricing. (Dollar signs clearly strike subconscious fear into the heart of post GFC consumers)
- Included the wine list as part of the main menu
- Included a “Reserve” category.

Most importantly, they were able to confirm that strong wine brands actually draw people to restaurants. During our Wine Marketing Australasia conference last year, Ben Moechtar (head of the Australian Sommeliers Association) questioned the sommelier’s role in building wine brands. How nice to know that there is now proof that strong wine brands can actually improve restaurant patronage providing a sound reason to stock and help build quality brands.

What is selling in the US On-Premise?

There are always at least two dimensions to this question that we should look at. The first, the biggest sellers by volume, is not particularly relevant to most of our clients but there are some important messages. Paramount amongst these is that high volume and higher value brands are possible in this market and at this time. Kendall-Jackson is the outright number one On-Premise brand in the US. Their cheapest range (Vintners Reserve) sells for \$US15 in off-premise retail on average.

As with Oyster Bay in Australia, the businesses best equipped to grow large profitable brands are those with a tight offer targeting the Aspirational wine drinker.

RESTAURANT WINE TOP 20 of the TOP 100 WINE BRANDS ON-PREMISE 2008				
2008 RANKING (Volume)	BRAND	WINE TYPE	COUNTRY OF ORIGIN	COMPANY/IMPORTER/ MARKETER
1	Kendall-Jackson	Table	USA	Kendall-Jackson Wine Estates
2	Sutter Home	Table	USA	Trinchero Family Estates
3	Beringer Vineyards	Table	USA	Foster's Wine Estates Americas
4	Franzia Winetaps	Table	USA	The Wine Group
5	Inglenook	Table	USA	The Wine Group
6	Yellow Tail	Table	Australia	"W.J. Deutsch & Sons, Ltd."
7	Copper Ridge	Table	USA	E. & J. Gallo Winery
8	Cavit	Table	Italy	Palm Bay Imports
9	Woodbridge	Table	USA	VineOne (Constellation)
10	Salmon Creek	Table	USA	Classic Wines of California (Bronco)
11	Foxhorn Vineyards	Table	USA	The Wine Group
12	Barefoot Cellars	"Table, Sparkling"	USA	E. & J. Gallo Winery
13	Almaden	Table	USA	The Wine Group
14	Taylor California Cellars	Table	USA	Centerra Wine Co. (Constellation)
15	Ecco Domani	Table	Italy	E. & J. Gallo Winery
16	Sycamore Lane	Table	USA	Trinchero Family Estates
17	La Terre	Table	USA	VineOne (Constellation)
18	Stone Cellars	Table	USA	Foster's Wine Estates Americas
19	Chateau Ste. Michelle	Table	USA	Ste. Michelle Wine Estates
20	Mezzacorona	"Table, Sparkling"	Italy	Prestige Wine Imports Corp.

Figure 7 – The Top 20 wine brands by volume in the US On-Premise – Source – Restaurant Wine Magazine

The second thing to note when you look at the top 20 individual wines is that there is just one red wine, one Riesling and no Sauvignon Blanc. It's all about Chardonnay and Pinot Gris. There are a couple of "Chablis" style wines (made from Colombard and Muscat etc) that fulfil the same sort of role that basic Pinot Grigio and White Zin. albeit slightly more aromatically.

RESTAURANT WINE TOP 20 of the TOP 100 WINES ON-PREMISE 2008			
2008 RANK (Volume)	Brand/Winery	Wine	Origin
1	Kendall-Jackson	"Chardonnay, Vintner's Reserve"	USA
2	Cavit	Pinot Grigio	Italy
3	Beringer Vineyards	White Zinfandel	USA
4	Sutter Home	White Zinfandel	USA
5	Inglenook	Chablis	USA
6	Ecco Domani	Pinot Grigio	Italy
7	Mezzacorona	Pinot Grigio	Italy
8	Copper Ridge Vineyards	Chardonnay	USA
9	Yellow Tail	Chardonnay	Australia
10	Franzia Winetaps	"White Zinfandel, Vintner Select"	USA
11	Yellow Tail	Shiraz	Australia
12	Franzia Winetaps	"Chardonnay, Vintner Select"	USA
13	Wycliff	Brut	USA
14	Woodbridge	Chardonnay	USA
15	Martini & Rossi Vermouth	Dry Vermouth	Italy
16	Sutter Home	Chardonnay	USA
17	Santa Margherita	Pinot Grigio	Italy
18	Chateau Ste. Michelle	Riesling	USA
19	Foxhorn Vineyards	Chardonnay	USA
20	Taylor California Cellars	Chablis	USA

Figure 8 – The Top 20 wines by volume in the US On-Premise – Source – Restaurant Wine Magazine

The second, arguably more important dimension is listings. That is what WBS' 'Wine On-Premise' research reports focuses on. Building brands is all about distribution reinforcing perceptions of quality through implied popularity. This may sound counterintuitive to some but for wine, it works.

When you look at the top 100 most listed brands in the US on the following page, you can immediately see that it is a regular who's who of the wine world. Unlike Australia and the UK, the most listed brands are not sparkling wine and champagne but strong wine brands many of which have a global presence. This tells us that brand building is eminently possible in the US. It's not like the UK where restaurateurs use every channel available including direct importing in the deluded belief that it is better to offer consumers unknown wine in order that they make more money. The restaurant sector then ends up with a combined offer that is so diffuse that it is impossible for people to make an informed decision. They are therefore less likely to put their money at risk. People complain about the three tier system but putting a good brand in a strong importers and running it through structured distribution does yield better results.

RANK	PRODUCER	RANK	PRODUCER	RANK	PRODUCER
1	Beringer	35	Moet & Chandon	69	Martini & Rossi
2	Chateau Ste. Michelle	36	Principato	70	Clos du Val
3	Kendall-Jackson	37	Bogle	71	Gabbiano, Castello di
4	Clos du Bois	38	Cakebread	72	Stag's Leap Wine Cellars
5	Estancia	39	Veuve Clicquot	73	Phelps, Joseph
6	Ecco Domani	40	Jadot, Domaine Louis	74	King Estate
7	Coppola, Francis	41	Mondavi, Robert	75	Sebastiani
8	Sterling	42	Stags' Leap Winery	76	Concha Y Toro
9	Sutter Home	43	Grgich Hills	77	Hogue
10	Columbia Crest	44	Little Boomey	78	St. Supery
11	Penfolds	45	Red Diamond	79	Cambria
12	Blackstone	46	Hess Collection, The	80	Crawford, Kim
13	Beaulieu Vineyard	47	Rocca delle Macie	81	Bearboat
14	J. Lohr	48	Brancott	82	Far Niente
15	Mondavi Private Selection	49	Trincherero	83	Neyers
16	Ravenswood	50	Silver Oak	84	Shafer
17	Antinori	51	Kenwood	85	Bonny Doon
18	Sonoma-Cutrer	52	Montevina	86	Perrier-Jouet
19	Mirassou	53	Woodbridge	87	Casa Lapostolle
20	Ruffino	54	Norman Estates, Greg	88	Loosen, Dr.
21	Cavit	55	Frog's Leap	89	Martini, Louis M.
22	Ferrari-Carano	56	Santa Margherita	90	Barolo, Marchesi di
23	Rosemount Estate	57	Geyser Peak	91	Markham
24	Yellow Tail	58	Jacob's Creek	92	Newton
25	Caymus	59	Dom Perignon	93	Nickel & Nickel
26	Banfi, Castello	60	St. Francis	94	Acacia
27	Franciscan Oakville Estate	61	Lindemans	95	Bottega Vinaia
28	Bertani	62	Merryvale	96	Rex Goliath
29	Domaine Chandon	63	Opus One	97	Ridge
30	Chateau St. Jean	64	Luna	98	Veramonte
31	Rodney Strong	65	Duckhorn	99	XYZin
32	La Crema	66	Korbel	100	Black Opal
33	Simi	67	Benziger		
34	Jordan	68	Folie a Deux		

Figure 9 – The Top 100 most listed wine brands by volume in the US On-Premise – Source – Winemetrics

California remains the dominant player, representing nearly 2/3 (64) of the top 100. Italy is second with 13 brands followed by Australia (8) and France (5). The remaining spots were captured by Washington State (4), New Zealand (2), Chile (2), Germany (1) and Oregon (1).

Why make such a theme of the US On-Premise market? I believe that if medium sized Australian companies can not make themselves relevant to US consumers at \$25-50 on a wine list then the Australian brand (and that of others who follow in its wake) may be in big trouble globally.

Perhaps the most disturbing chart in the AWBC's "Wine Industry Restructuring Agenda" paper is the one on the following page showing that wine shipments over \$45 FOB (yes that's per case not per bottle) have almost halved in the last two years

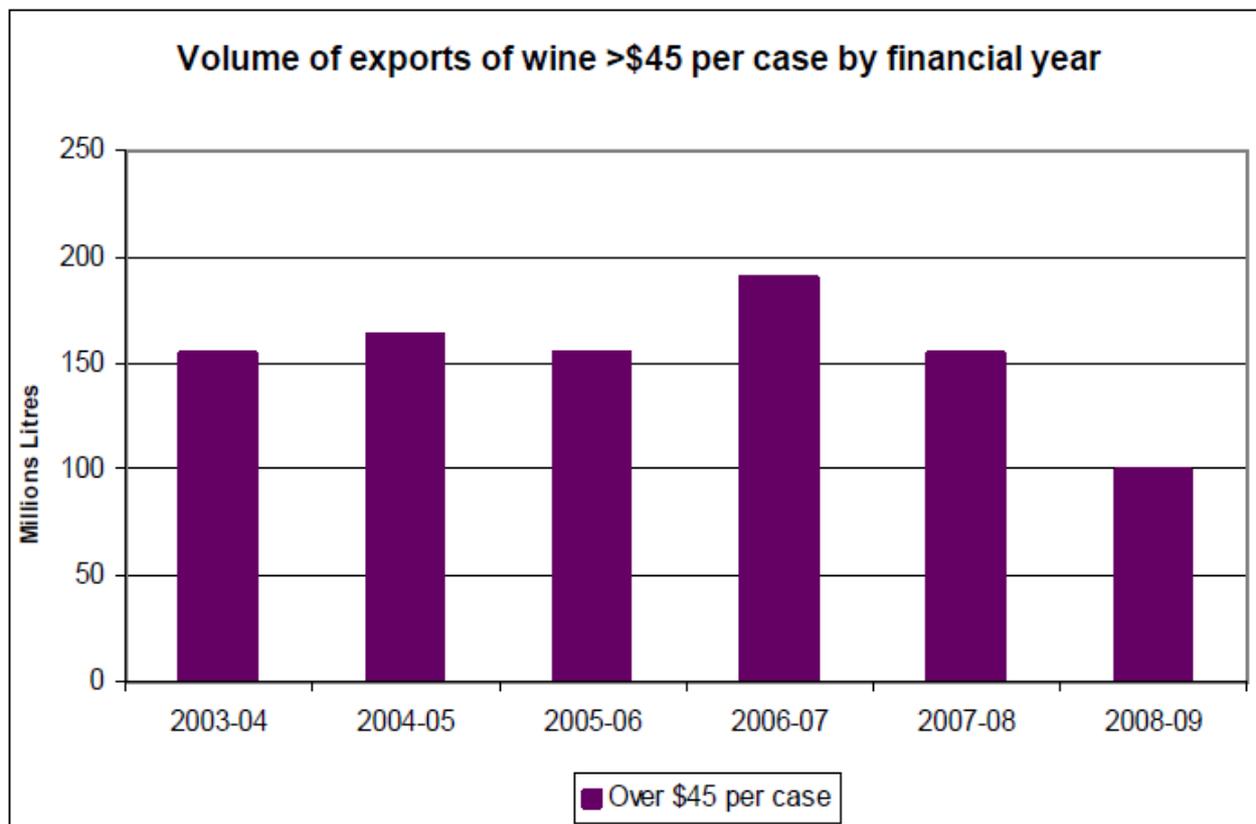


Figure 10 – Australian wine Exports at more than \$45 per case FOB

So how would you tackle this monster? What sort of strategies might work in this market? People like Ross Brown of Brown Bros. are yet to be convinced that there is a way to win. One of the main themes of our workshop series this year is how to develop pricing structures and business models that work globally.

Creating an offer that speaks to the ideals of the Aspirational wine consumer and is priced up to the limit of what they expect to pay for a quality brand is part of the secret. Having a smart go-to-market strategy will not only be important for your own business but impress distribution partners as well. Let's take one of a number of examples we'll include in the program.

If for example, you look at the composition of US restaurants by type, Italian restaurants feature strongly. Logically, Italian wines fare well in this environment. If we now consider which outlets move the most wine, the tables turn almost completely. Steakhouses and seafood restaurants outperform all other formats with steakhouses having a significantly higher proportion of fine dining establishments. Brands like 'Angus the Bull' have not missed this.

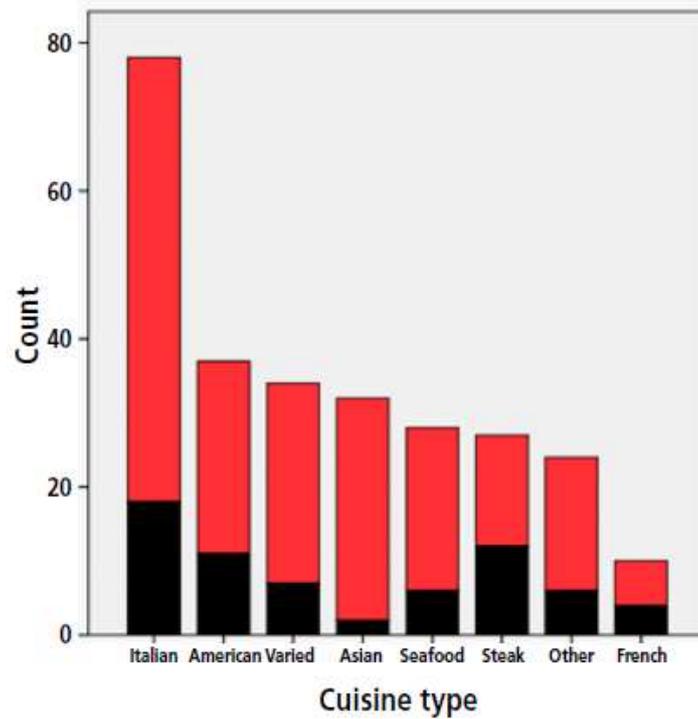


Figure 11 – US Restaurants by type (red, casual dining / black, fine dining)

Source – “Wine list characteristics associated with greater wine sales” – Yang and Lynn

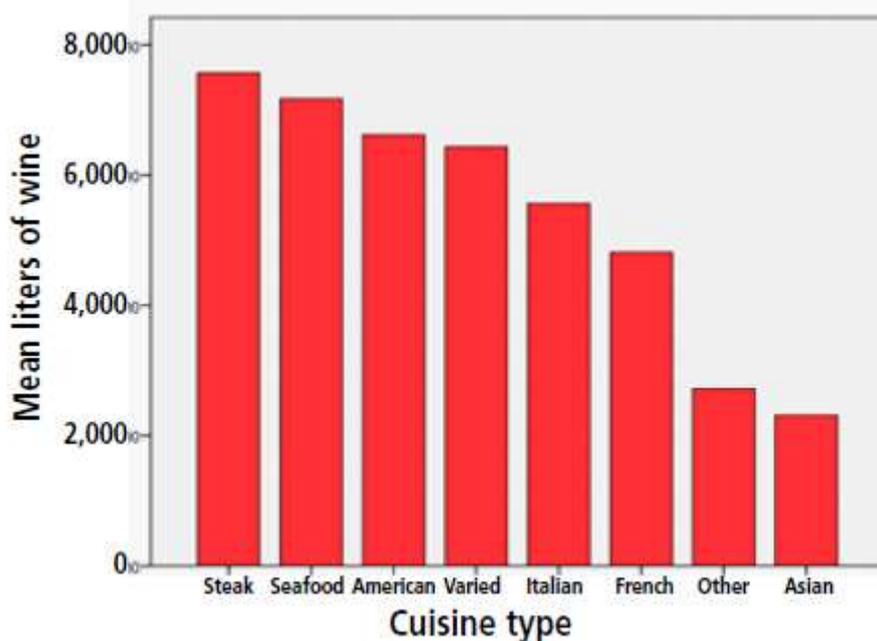


Figure 12 – Mean litres of wine sold by outlet type

Source – “Wine list characteristics associated with greater wine sales” – Yang and Lynn

What about New Zealand? How can it improve its position? Although New Zealand accounts for just 1.8% of total by the bottle listings, NZ Sauvignon Blanc comprises nearly 30% of all on-premise bottle listings of this variety according to Winemetrics. New Zealand has three of the first five places, including No. 1- Brancott. This has to be considered quite an achievement as Pernod Ricard is not a strong On-Premise player in Australia and the UK. Sales of Sauvignon Blanc are critical to New Zealand’s success on-premise, as it provides nearly three-quarters of by the bottle distribution.

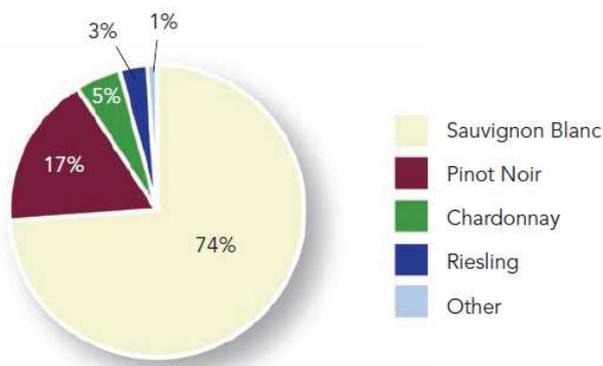


Figure 13 – NZ by the bottle wine sales in the US On-Premise



Figure 14 NZ BTB wine sales by price point US On-Premise

As we pointed out in our Wine On-Premise UK study, New Zealand’s biggest issue as a country brand is a lack of listings of luxury level wine. It is in a good position to build to this in the US, however, as average wine by the glass prices are higher than for practically any other country / region.

RANK	PRODUCER	# LISTINGS	AVERAGE PRICE
1	Brancott	126	\$7.33
2	Kim Crawford	55	\$9.49
3	Nobilo	45	\$7.69
4	Matua	19	\$8.05
5	Oyster Bay	17	\$7.14
6	Redcliffe	10	\$8.38
7	Saint Clair	4	\$9.50
8	Whitehaven	4	\$9.06
9	Sherwood Estate	3	\$8.50
10	Craggy Range	2	\$10.00

Figure 15 – Most listed wine brands by the glass in the US

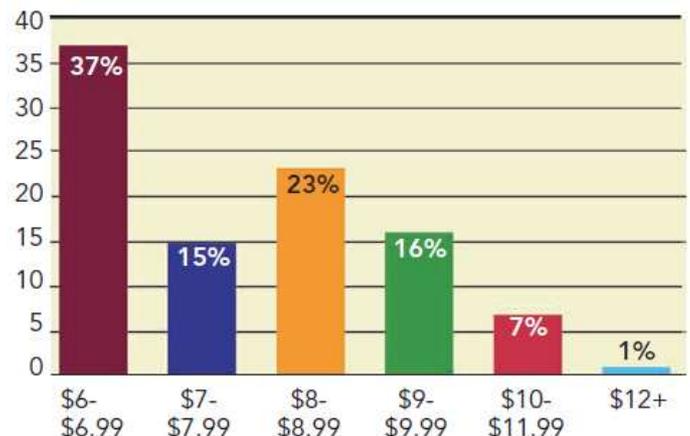


Figure 16 NZ BTG wine sales by price point US On-Premise

Another path to profitability we’ll be presenting as part of this years workshop series is creating and managing a luxury brand.

You can purchase WBS’s Wine On-Premise UK and Wine On-Premise Australia on line now

http://www.winebusinesssolutions.com.au/_catalog_50625/Papers

Wine On-Premise Australia 2010 will be out within the next 4-6 weeks so let us know if you would like the most up to date version.

As the Winemakers Federation of Australia prepare to go about the grisly work of reading the last rights to long struggling members of the beleaguered Australian wine industry, it was pointed out to me over lunch by the head of an esteemed Australian wine industry association that this might be a great commercial opportunity for WBS.

It did give me pause to think but we've decided not to get involved for two reasons. Firstly, you don't make a lot of friends by telling people that they are "stuffed", to put it in popular Australian parlance. Secondly, who is putting forward ideas on how to build demand rather than accepting demise? Who is doing anything at all, in fact, to help struggling wine businesses? Yes this is a terrible time for a lot of growers and producers and yes, those responsible for at least 20% of Australia's wine production will be slowly strangled out of the industry unless government decides to intervene in order to hasten things.

But what about the rest of us who want to fight on?

We started our workshop program 5 years ago by focusing on developing winning strategy. We then moved to talking about how to sell your wine. It was last year's series that best hit the mark to date, however, judging by the feedback we received. We called it "Making Money in the Wine Industry".

This year's program - Building a Profitable, Sustainable Wine Business is the logical next step. It's one we've pre-empted since day one in the body text on our homepage and one that is clearly needed now.

We will be focusing on;

- The key success factors for a profitable, sustainable wine business
- Business model that work for different consumer segments.
- How to develop pricing models that allow your business to remain profitable whilst expanding.
- How to construct an offer capable of remaining constantly relevant
- How to continually re-engineer each step in the value chain so as to create more customer value and cut costs by removing what customers do not want.
- Developing winning direct to consumer strategy.
- Using new media to build 'communities of faithful followers'.
- How to get your whole company involved in securing customer preference.
- And last but not least, how to manage growth.

Click this link to download a brochure <http://www.winebusinesssolutions.com.au/brochures/2010.pdf>

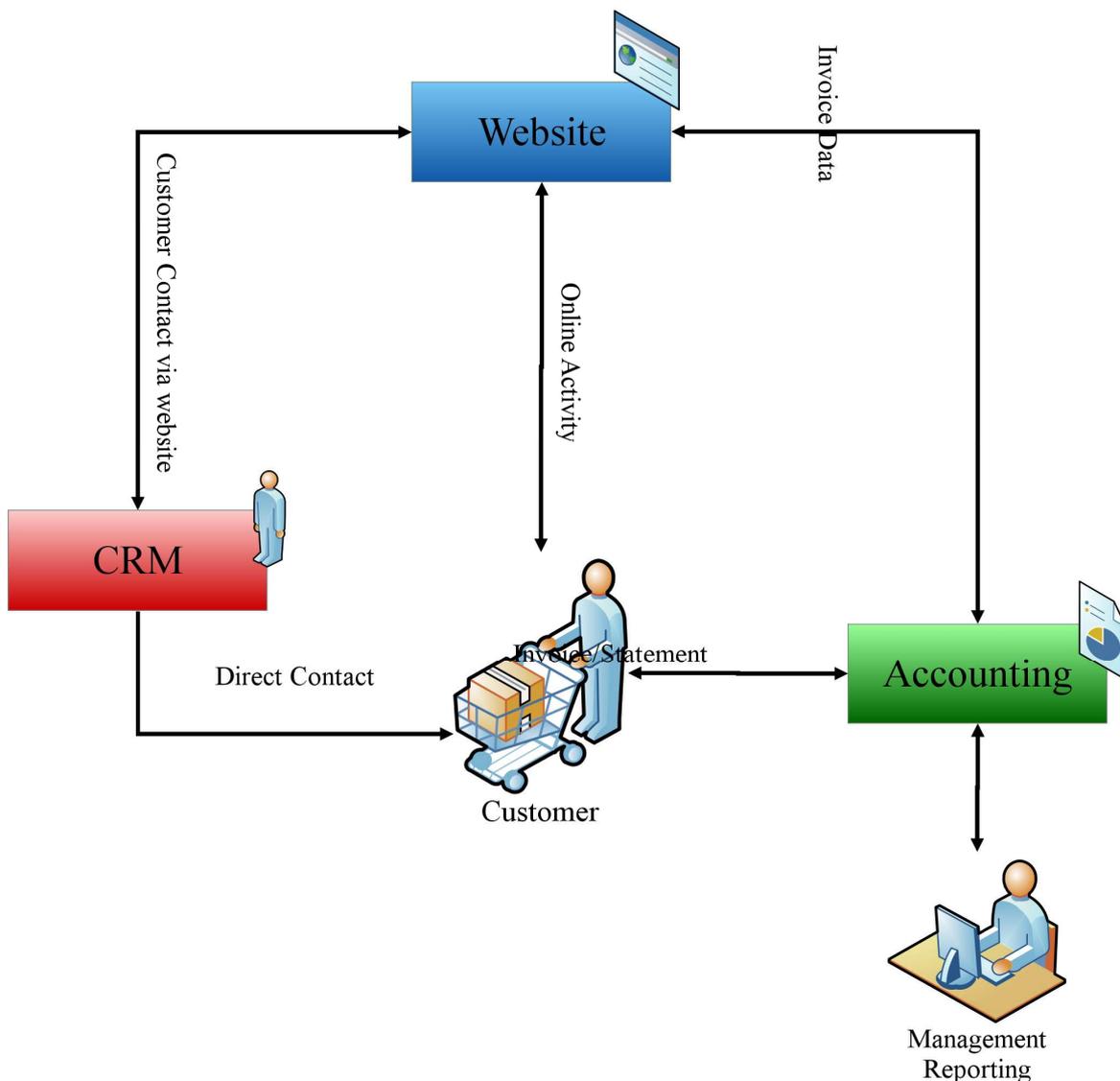
We're currently working with industry associations across Australia, New Zealand and South Africa setting up venues and dates. If you would like to know about a workshop in your region, please send us an email: peter@winebusinesssolutions.co.au

All Previous issues of the Wine Paper are now on-line. Just click the link below.

<http://www.winebusinesssolutions.com.au/Resources>

On that page, you will also find an article that will appear in the Australian Grape Grower and Winemaker February edition. It highlights the way in which website backend technology has changed to the point where it is now possible at virtually no cost to know who is coming to your site, what they buy, how much they spend, even what search words they used to find you.

You can then use this information to more easily manage communications and build sales. Sounds simple enough but as many of you will know through hard experience, to date, it just hasn't been. Now at last there are some cost effective solutions.



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

(From Wine Business Solutions article published in Wine Business Magazine, March 2007)

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 where ever possible. Everybody knows they should do this. Few do. The difference in 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.