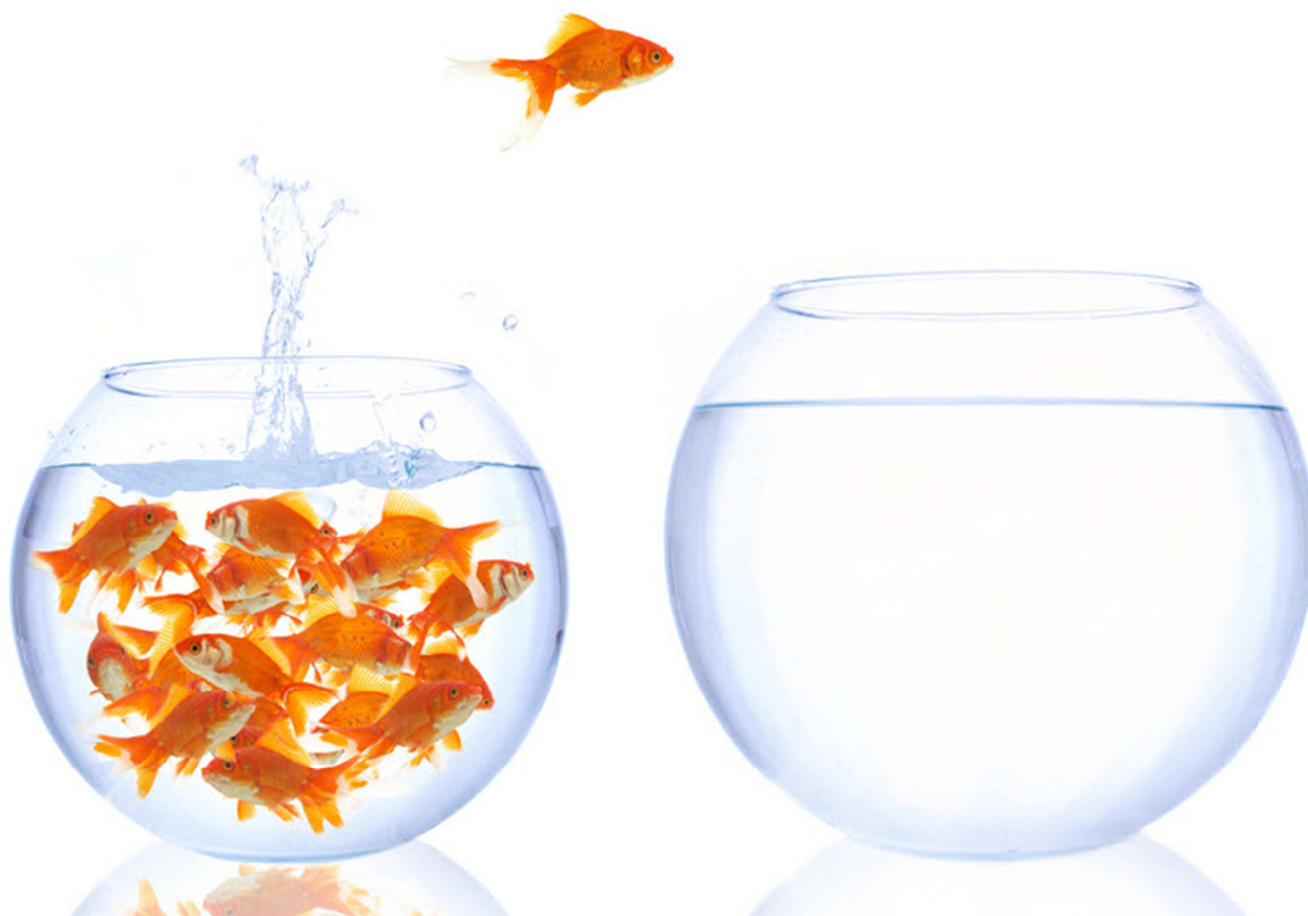


Wine Business Solutions



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Breaking Clear of Competition

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Many of you will be familiar with the book “Blue Ocean Strategy” by Chan Kym and Renee Mauborgne. When I started my own business, I was determined to operate in uncontested market space. Wine business consulting was, nine year ago and still is today, one of these “Blue Oceans”. What they don’t say in the book is that when you do that, you have two jobs to do. Before you can even start the process of building trust and selling services you must first clarify exactly what it is that you do, explain why that is useful and pin point how that will benefit people who own wine businesses.

One misconception that I regularly encounter is that you have to be in trouble before you need our help. Yes, wine business turnaround is a sometimes tough but very rewarding part of what we do. In the process of formulating turnaround strategies for many a wine business, we have developed a strong network of people who can help move excess inventory, establish new markets and put struggling wine businesses on a much better, overall footing.

The overwhelming majority of our clients, however, are not struggling. They are looking to build a competitive advantage. I am continually inspired by them. I think that it is high time we celebrate what they have achieved and share some insight.

I thought long and hard about whether to name them. Over the break I have enjoyed reading Tom Peters’ latest book “The Little Big Things – 163 Ways to Pursue Excellence”. You may remember that Mr Peters co-authored “In Search of Excellence” and “A Passion for Excellence” two of the biggest selling business books of all time. You may also recall that he was roundly ridiculed when, 10 or so years later, many of those companies were not in a great state of health if they still existed at all. That doesn’t mean that he was wrong. It simply reflects that remaining “Excellent” is challenging.

So rather than nominate people, potentially embarrassing them, giving cause for jealousy and potentially losing the message should they, for whatever reason, not continue to be “Excellent”, I will talk about the principles of what our customers did that transformed their business.

Seeing what to do, after 27 years of experience and exposure to almost every type of wine business across the planet, really is very easy. I believe that good consulting is not about telling people what to do. It is about very gently disrupting what people think, providing them with lots of examples of success and giving them time to formulate their own answers. That is where the immense creativity of people who lead this industry shines through. That’s why I love this job.

There are those that say that there are too many wineries in the world. I've always contended otherwise. In Australia, New Zealand and South Africa particularly, the market can easily absorb more true artisans making very small quantities of fantastically good wine. Still on the topic of reading over the break, I think the worst title for a book that I have ever seen is "1001 wines under \$20". Absolutely no disrespect intended to the author, the "Great Man" James Halliday, or my beautiful wife for buying it for me. It's just that for the health of the industry, there simply should not be 1001 wines under \$20.

Some time back, one of my best clients was in this frame. He was making sub \$20 wines and wondering how much of it he would have to make before he was making money. As many of you would know, scale effect in the wine business often only starts to kick in at somewhere between 50-100,000 cases production using the traditional winery and vineyard ownership model.

We started, instead, with a conversation about how much money he needed his wine business to make. As he had another business and his wife had a good job too, he felt that if his winemaking enterprise could pull in \$150,000 per year then that would be a great outcome. As he worked very smartly to manage costs, he could produce a bottle of wine, all costs in, for around \$10. That therefore meant that the number of cases of wine that he had to sell direct to customer at \$35 per bottle was just 550.

There was also an unpronounceable aboriginal name to have to deal with and packaging that was now 15 years out of date. My client undertook to resolve these "marketing mix issues" on his own and developed a new brand name that I still have some doubts about. His wines were always worthy of the \$35 price tag but what he excelled at was networking and hand selling. He'd developed this skill in his other business and through previous corporate roles.

I asked him recently how it was going. "Sold out in six weeks" was the loud and proud repost. He couldn't believe how easy it had been.

Necessity is the mother of invention, they say and as his other business was in danger of galloping away from him, he had to find a better way. Previously, the fact that he was a winemaker and had access to some excellent parcels of fruit had led him down a path of constant experimentation and product proliferation. Now, with just a couple of styles to focus on and a vastly simplified business model, he is enjoying winemaking a lot more and rapidly growing his other business.

I've always been fascinated by markets. I always thought they held immense possibility for the wine industry if only my clients could work out the right way to participate. Essentially, there are three types.

1. Browsing Markets – you know the ones where people doddle past the wind chimes and the candles and walk home empty handed after washing down a bacon and egg roll with a cappuccino? (Apologies to our European readers for this disturbing image...)
2. Socialising Markets – where young mothers take their double-barrelled tractor-tired prams and double-park them in the main walkway.
3. Shopping Markets

One of my clients had a large export business. They are natural sales people and had secured good distributors in some key markets. With rising exchange rates, their profitability was getting severely squeezed. Given the location of their vineyard, the option to go up-market simply wasn't there. They also have a young family and travel was getting too much. They needed to reinvent themselves.

Fortunately, their house is located on a busy road in a semi-rural location where people frequently stop to buy produce, unlike their vineyard which is another five hours away. I suggested that they might also have their own slightly more upmarket "market stall" and that they might like to look at stalls at markets so as to have "multiple consumer touch points" and build up a database in order to create a direct to customer business.

I wasn't quite prepared for but was very pleasantly surprised when they turned up at my local market. As I had walked around each Sunday morning, I'd always felt that there was a huge gap between the vast number of people looking to buy something and what they were being offered. My hunch proved correct. I asked my client how it was going. He replied under his breath so customers wouldn't hear - "We're pulling in between \$2500-3000 per day. When we bundled up our first day's take, I couldn't even get my hands around it. I now know what it must feel like to be a drug dealer and perhaps why they do it!"

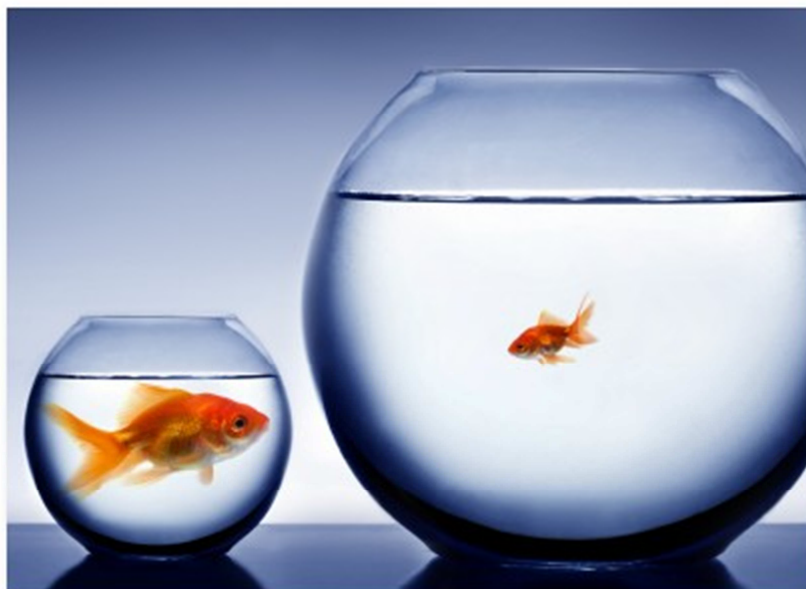
There have been some sacrifices, of course. They are now working seven days a week but by "fishing where the fish are", they now have a very profitable and sustainable wine business. They are also doing what they love most - Talking to customers and seeing the tangible results of their endeavour.

Some models work better under certain circumstances than others, of course. There has never been a better time to be a creative winemaker. With all winemaking resources in oversupply, it's a great time to apply a "blank sheet of paper" review to your business. In other words – "who am I selling to and how, what do they want and how can I innovate my supply chain to more accurately deliver what they want whilst lowering costs that don't impact quality?"

One young winemaker client I talked to recently spoke with great glee about the fact that the growers in his region were prepared to do almost anything to create the fruit he needed. Almost all wineries have excess capacity. He controls his own route to market. This gives him the freedom to take the learning from his last three vintages, dispense with all that was less than ideal and start again wherever he felt that was the best option.

This approach does not run contrary to having the unwavering long term vision necessary to achieve greatness. The most successful meld these two approaches together, constantly innovating in the "pursuit of excellence".

Other clients are looking at individual rows within vineyards, batches of ultra-premium bulk wine and even barrels within wine making runs in order to use what used to be blended away to create ever higher quality levels of limited release wine. This borrows a little from the negotiant idea, it's true, but does so in reverse. Instead of going around and mopping up what wineries don't want to put their own label on, winemakers are realising value where more commercial wineries had previously blended it away.



For small business, making radical change in a short period of time is relatively easy. There's no board to have to present to, no shareholders to have to appease and no Senior Management bench to bring on board. They just get on and do it.



With retail and whole channel consolidation, rising exchange rates and rapidly growing online sales, major change is now a life or death decision for large wine businesses, particularly listed ones.

What are our largest clients doing to deal with this change? One of the most profitable medium sized wine companies in Australasia has developed what it calls a “war room”. On its walls is ever single customer they have. They're then divided into sales channels. Each major sales initiative is listed with a timeline. Their strategic execution (I'm not one of these people that tears one from the other) is driven by opportunity analysis and risk mitigation. Their aim is never to be over reliant on individual customers, markets or channels. They've develop an offer that maximises the appeal of their business to each chosen channel whilst ensuring that participating in one channel does not preclude another.

Sounds simple but this is what the larger listed companies have by and large not been able to deal with. They don't have great direct to consumer fan followings (Fosters has 36 Hundred likes on its Facebook page, Coca Cola - 36 Million), they haven't seen opportunity in Asia as readily as smaller players (TWE sells just 1.5% of its 33 Million case production in China according to Citigroup) and as you can see in [Wine Paper 18](#), even in Nielsen audited domestic retail where listed companies have cast their lot, they are getting left behind by the pool of “other manufacturers” being the medium sized companies.

Above all, they haven't developed exclusive brands and premium lines within major brands that are exclusive to quality distribution. Nor have that handled their core brands in a way that would have premium channels want to touch them. Again it's so very simple to see what to do but extremely hard, it seems, for the largest companies to overt from a collision course with monopolised liquor retail who hold all the power in that conversation.

What opportunity emerges in their wake? One of our largest clients increased their business with independent retail by over 70% last year. They did this through starting their own sales force and targeting those regions not serviced by smaller companies and alienated, by and large, by the big guys. Some might say that this is selling to a dying market. Large format retail has so far been a more effective competitor to supermarket owned convenience stores than it has been to wine specialists.

Online and large format retail is, however, changing the shape of our towns and cities. You've only got to look at the number of vacant car lots on your main road to know that. Sadly, the number of empty retail spaces on formerly bustling high streets tells the same story. The same thing happened in the UK 15 years ago.

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I've always been intrigued that the Mandarin symbol for "crisis" is the same as that for "opportunity". After visiting Santa Barbara last year, it is very clear to me that there is massive opportunity for wine towns like Paarl, Mudgee, Bowral, Daylesford, Napier etc. to use their unique charm as the catalyst for the coming together of a premium wine, food and lifestyle experience, taking advantage of the low rents caused by commoditised retail moving to larger format shops, malls and online.

This, of course, has to be actioned on a regional basis which is always challenging but doable. It also requires people to get beyond the idea that you can only have one brand home and that it must be on your farm. What people want is a great experience. If it is easy, all together in one place and complementary, then the sum really can be far greater than the parts. Santa Barbera, with 18 cellar doors in the downtown area alone, is a great example of how easily and well this can all work. [Los Olivios](#) with a population of just 1000 located 45 minutes from anywhere and 19 cellar doors shows us that anyone can do it. There is opportunity through all channels for all types of business. It is generally only getting caught in the cleft of change that brings business undone. Helping to guide you through is what we are here for.

True excellence is always a winning strategy but can be extremely tough to execute. Embarking upon the path of being the regional quality leader, for example, is really hard in the short to medium term but a very safe bet in the long run. One of our clients waited 10 years before producing a vintage from their home vineyard. They then rejected the first two that they made. Altogether it was a 13 year journey from start of project till their first commercial release. That's how determined they were to own the regional quality leader tag.

You don't have to be first to hold it. You earn it by doing everything with just that little bit more precision than everyone else. Sometimes you only have to beat 35 people. Other times - 100 or more. Now that they own it, it seems that steady growth is assured. At least that is what Tom Peters thought when he penned the "Excellence" series.

Another way forward can be to use the principles of value innovation to create your own unique market space – your own "Blue Ocean". That is where we can help. From grape to glass, we see people doing extraordinarily creative things. We see huge untapped opportunity at each step along the way and if people then innovate using their own understanding of how they and their business operate then almost anything is possible. As always, we'd love to help if we can.



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

(From a Wine Business Solutions article published in Wine Business Magazine)

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 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.