Wine Business Solutions

The Wine Paper 24

January 2013

Building Wine Brands

Tim Rands is someone I admire greatly. Tim started a small fine wine distribution business called Vinimark in the Western Cape in the mid-1990s and in the space of just 10 years became one of the most successful wine business people in South Africa.

As well as some clever acquisitions, Tim introduced a constant stream of innovations. From Versus, the country's first 1.5 litre format brand through to The Chocolate Block, a super-premium wine brand tasting distinctly of chocolate, Tim blazed the trail. He pretty much taught Pick and Pay (the nations largest supermarket chain) how to do category management for wine and became their number one supplier as reward.

He was smart enough to realise, for example, that by giving his flagship brand the most difficult to pronounce Afrikaans name possible – Boekenhoutskloof – that he could actually create value through having young sommeliers and wine fanatics feel good about themselves just for being able to say it.

It's fair to say that Tim is one of the best marketers I have met so when he talks about building wine brands, I listen hard. He once said to me that "Building wine brands is not rocket science. There are things that your consumers want and that your customers need. You must deliver. You have to spend the money and spend it on the right things at the right time. **<u>Very</u>** few people know how to do all of that."

That conversation is nearly 20 years old now but I remember it like it was yesterday. After some recent consulting assignments, I am given to thinking that building understanding of those principles is even more important today.

So when looking to build a wine brand, what are the ten most important things to perfect?

1. **The Name** – This is possibly the most important decision you will make. A brand name should inspire. It should ideally speak to what consumers want from the experience of your wine as distinctly more powerful than who you are or where you are from. Think of Barefoot, Oyster Bay, The Chocolate Block and you will not only imagine the sort of place these brands might take you to, you will see that they sit on their own it terms of their strength of brand franchise.

   Generally, your brand name should be easy to say, remember and tell other people about.
   As above, if you can't manage that, it should at least make people feel good when they say it.

Think of Freixenet, d'Arenberg, Veuve Clicquot but also note that each of these uses colour (black, red and orange respectively) in a very powerful way to compensate for lack of 'pronounce-ability'.

It should help position you uniquely. It should be something that you alone can own. It should be able to transcend time and geography. It should sound at least a little aspirational as all wine sold for more than about $13 per bottle is a luxury for someone.

I wouldn't call your brand hill, creek, river, vale or dale etc. There are a few brands that this works for, of course, but they already own these ideas. I wouldn't bother with frog, dog, cat, pig or python at this point either as that territory has been fairly well worked over as well.

By now you probably think I am being facetious if not patronising. I wouldn't be making this point so strongly if it were not for the long line of people that I deal with on a daily basis who are struggling because their brand has no meaning, no relevance, is not pronounceable, has negative connotations they didn't foresee and /or is not trademark registrable in key markets.

Luckily, your brand is better known to you than to anyone else. If you haven't got it exactly right, you probably can go again. If Montana (who at one time had 63% share of the New Zealand wine market) can do it, you can probably get away with it too.

2. **The Offer** – I was nearing the end of one of our workshops last year when the matriarch of highly successful wine family asked – "What's this thing you talk about – the offer??" So often I am called into businesses where the sales person has just fired. The owners can't understand what went wrong. "That guy seemed so successful when he worked for neighbours", they say. Nine times out of ten, it is not the sales person that is at issue but the offer. So what is this thing we call the offer?

   It is;

   - Your face to the world. For a lot of brands, a collection of bottles and labels is all that is known of the maker. The Direct to Customer model gives you the chance to intervene but that only changes the dynamic when you are actually present, somehow or other.
   - The means through which you make yourself <u>understandable</u> to you target audiences
   - The means through which you represent that you are what your target audience wants
   - The reflection of where you're from and what you do best
   - Consisting of lines / wines and can have tiers
   - Defined by the integrated whole and
   - Should be more than the sum of the parts.

Getting the offer right has huge benefits. You can;

- Align brand tiers with audience's palate profile, aspirations and ultimate end values.
- Become understandable, as a first step towards being memorable.
- Focus on what you do best
- Concentrate on what sells
- Optimise resources
- Simplify processes
- Reduce and better manage inventory
- Free up cash (to help sell more wine?)

Being too keen to respond to customer requests, too eager to commercialise winemaker experimentation or production led innovation and too scared to kill off products that don't fit usually means that the older a wine business is, the less relevant its offer is. Those that have the vision and the discipline to keep the offer "right and tight" usually win.

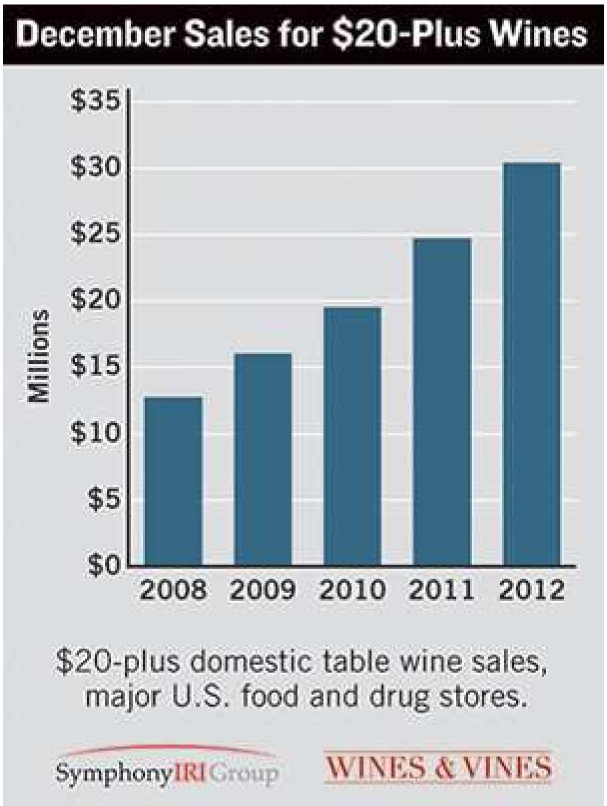
3. **Packaging –** There is a whole treatise that can be written on this subject, of course, but if you find yourself rolling your eyes when your designer or consultant is talking about label textures and paper build etc then you probably need to reconsider. The very fine details of how a brand looks and feels really are the life and death of brands. Take the work that Grant Burge or Chard Farm put into these elements, as examples, and you'll begin to understand why they rise above the 100 plus other brands they compete within their respective regions.

4. **Merchandising –** As earlier mentioned, wine is a luxury product and when comparing to other categories like perfume, cognac and even olive oil, it's not difficult to see that how wine is showcased is perhaps the biggest opportunity wine brands have. When talking about merchandising, I am also referring to how brand owners help "arrange" the selling environment in order to drive more sales of their own brands. With increasing supermarket ownership of retail and listed companies employing trade marketing managers with FMCG backgrounds, this is becoming a bit of lost art. We now have the managers of the larger companies asking us just what it is that the few companies who have perfected this skill are doing that so profoundly affects wine sales.

5. **Pricing –** if packaging is a treatise, then pricing is a PhD thesis. One thing that I would share for free is that it is very difficult to land yourself in trouble pricing ahead of the market. That is to say, it is always better to wait for the market to come to you than to price down to where your distributors, retailers and others tell you the market is / has been.

Here is a graph of sales above $20 plus retail sales in the US for the month of December for the last 5 years. Those producers who let their importers sucker them into claims that there is no volume to be sold above $20 in the US will no doubt be wishing they had the market properly analysed.

Figure One – Sales of $20 plus domestic wine in US Off-premise



People complain in the media about exchange rates killing their wine business when more often than not it is lack of price maintenance discipline that is the issue. One of our more successful clients warns his sales staff upon commencement that trading outside of terms is grounds for instant dismissal. Hard but fair, I think.

6. **Right Sizing your Business** – In a conversation with a leading distributor in relation to whom their favourite brand principal was, they nominated one brand ahead of their 62 others because of the owners' depth of understanding of the "shape of their business".

What does this mean? They understood what the ideal size for the business was given the total size of the sector it lead, the growth in that segment, where the nexus of quality vs quantity lay for their own business and they geared everything they did toward a kind of natural, sustainable equilibrium.

All of the best wine businesses I see across the globe seem to have this Zen like approach to achieving balance in all things – balanced vines, balanced wines and balanced ambitions driving balanced returns to stakeholders.

7. **Choose your Channels wisely –** After deciding what size your business needs to be, you next need to work out where you need to be. Where your brand is seen and available affects;

   – Customer access
   – How your brand is positioned in their minds.
   – Building recognition of your brand
   – Advertising and promotion strategy. Not only do you need distribution for advertising and promotion to work, seeing your product is, of itself, an "advertising effect" that should be considered in the context of your brand building efforts.

   You can sell it all direct. We have clients who do nothing else and sell over 20,000 cases per annum. If you have greater need or ambition and wish to sell hundreds of thousands of cases, as one of our most successful clients so insightfully remarked to me once – "You kind of need it all". In other words, all channels have an important role to play in building brands at that scale.

8. **Develop highly adaptive, channel specific brand management strategies** – Now here we really can help. We've been doing a lot of work lately for the larger wine companies and distributors. Our proprietary research into the On-Premise and Direct-to-Customer gives us a unique level of insight into these areas.

   For example, I was recently asked what impact promoting in chain retail had had upon On-Premise listing in the Australian market. To make this analysis we looked at the Top 100 most listed brands On-Premise from our 2008 research and compared their share of listing that year with what they held in 2012. All of these brands sell at least some part of their offer and promote in the chains.

   The top line result was that those 100 brands had lost an average of 25% of their listings. Part of this could be attributed to imported wines taking share from the big domestic brands, some of it is certainly the result of the market becoming more sophisticated and restaurants wanting to offer larger and (they hope) more interesting selections and part of it is the sort of natural attrition that happens over time where any set of leading brands like this is concerned.

   But all of these factors combined were not enough to explain a 25% drop. Something else had to be going on. We then looked at the distributors of those brands. The results were quite startling.

   Moet Hennessy, the benchmark for brand building in the wine industry globally, actually managed to increase its share of listings by 40%.

Negociants, arguably Australia's most progressive fine wine agency company, lifted their share of listings by 13% through responding well to those changed market conditions mentioned above. S. Smith and Sons, the more conservative part of the Yalumba wine distribution empire, understandably didn't fare as well but still did better than average.

Figure Two – Change in Share for Top 100 brands by Distributor.

Distributor	Change 2008-2012
LVMH	40%
Negociants	13%
Scotchman's Hill	5%
Various	-4%
Fine Wine Partners	-5%
S Smith and Sons	-18%
Red & White	-19%
Oyster Bay	-23%
Average	-25%

Scotchman's Hill is representative of those companies that decided to go it alone and start their own salesforce. They read the writing on the wall where Sauvignon Blanc was concerned, for example, and rather than trying to beat the trend, joined it through distributing their own Marlborough wines. This helped propel sales of their core brand.

Those brand owners that chose to stick with distributors that operate in a single or multiple States rather than nationally (entitled "Various" in the table above) did considerably better than average. Again, this is understandable as these companies run on tight margins and are very close to the market. They therefore both want and need to change quickly. Fine Wine Partners also managed the change well but rather than reacting and taking on board a whole bunch of new brands, managed the change from within their existing portfolio.

Below the "Average" line are 12 companies who are responsible for the balance of the 2008 Top 100 On-Premise brands. They include all of Australia's largest listed and the rest of the large family owned companies. They have lost on average more than half of their listings. Losses ranged from 34 to 75%.

Does promoting in chain retail affect your on-premise listings? The answer very clearly is that it doesn't have to. If you read the market and adapt, you can thrive. Those companies that basically said "we're old and we're slow and we don't want to try to change our image" have, very sadly, been slaughtered. As Treasury Wine Estate have proved, however, with a well-considered strategy, it is still possible to bounce back. With the aid of our research and insight born of extensive consulting in this area, we're certain that we can help you to develop winning strategy too.

9. **Brand Investment** – Back to the original point – very few people know how to do this. We regularly help clients to develop budgets and supply brand equity monitors. Don't ever be fooled into believing that marketing is about acts of blind faith in terms of what you should expect as a return on investment. Once you understand who your activity is targeted at and what sort of response you need, it is usually easy to measure most of the desired results. It then becomes a matter of which activities are going to deliver those outcomes most efficiently and effectively. This, we have vast knowledge of and experience in.

   For example - we try to dissuade clients from attending any event where the sales and club signup etc achieved on the day is worth less than the cost of participating. Run properly, events should always be better than self-funding. We've a great number of tips from clients and from those who attended our workshops last year as well as our own observation as to how to get this right.

10. **Optimising Brand Value –** Over the last 2-3 years or so, we've gradually been drawn into more and more mergers and acquisition work. It's not where I saw the business going when I started it but it is the logical end point if a complete service is to be offered.

    Ultimately, we all want to be rewarded for all the effort we put into building wine brands. Realising the full value of our hard work through a sale is one way to achieve that. Increasingly, it is brands looking for buyers and vice versa as much as it is integrated wine businesses that are for sale.

    A brand is more valuable to someone else than it is to you if it:
    - Fits their portfolio better than it does yours
    - Can be produced using a lower cost base
    - Can be slotted into existing distribution channels
    - Lifts their image
    - Has a growth trajectory that you may not want to maintain but they need

    We can help you get your brand sale ready. You should at very least;
    - Be able to demonstrate consistently building sales in most if not all of the channels that the brand sells in.
    - Keep accounting and all other affairs of that piece of business separate so that you can immediately show prospective buyers the brand's performance on a standalone basis.
    - Consolidate all trademark protection, distribution agreements and proof of other investment you have made in the brand.

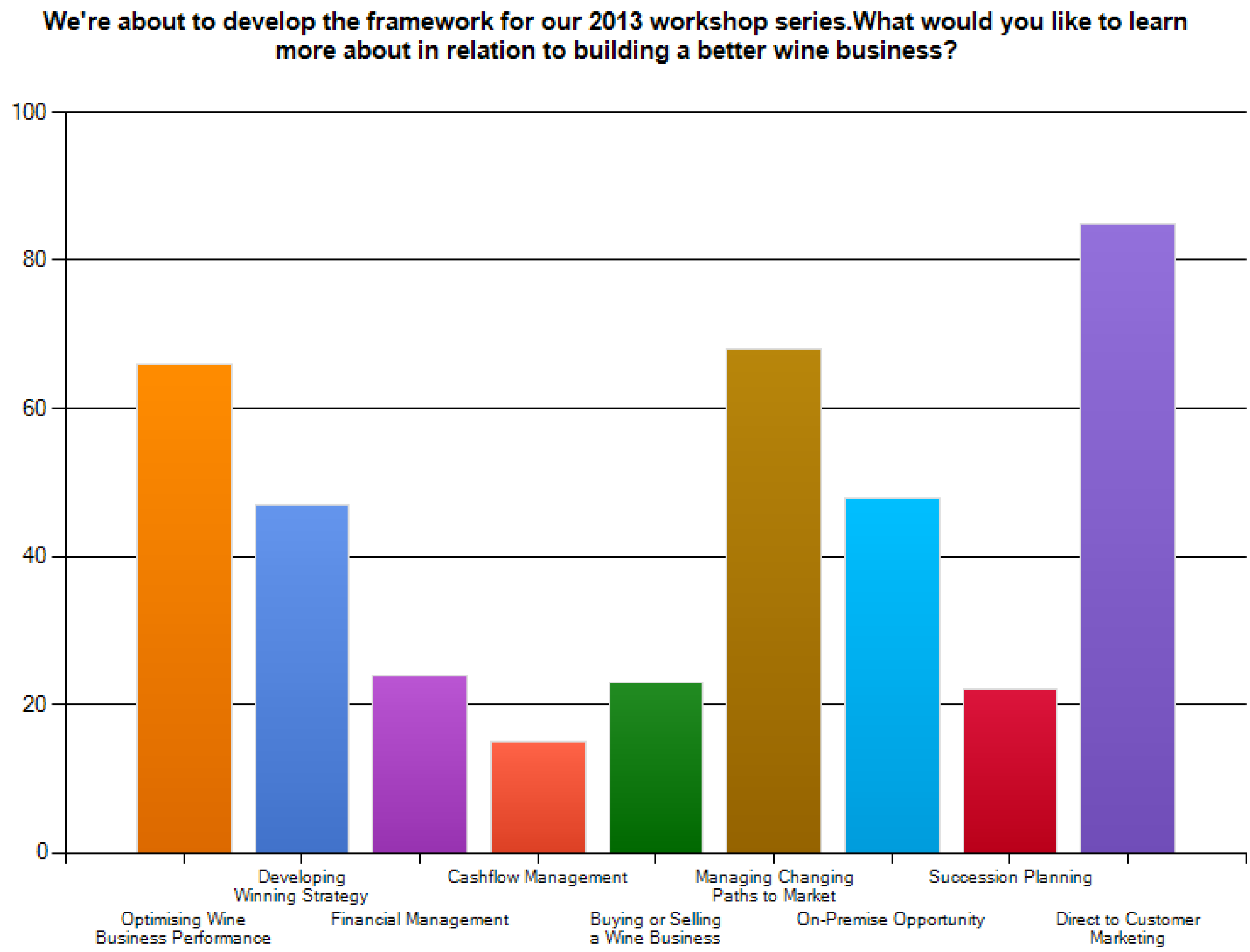
    We can help you with the rest of the process from there.

Most of you will have seen that we ran a survey in relation to The Wine Paper and our Workshop program for this year. You may be interested in these results.

We had 128 responses which is quite a testament to the power of conducting snapshot surveys.

When asked what would survey participants want to know more about as part of our Workshop program, the answers (see below) where quite emphatic.

Figure Three – WBS Survey Results



Our theme for 2013 will therefore be "Optimising Wine Business Performance".

We'll look at developing strategies to respond to rapidly changing paths to market with a special focus on building business directly with customers. Please just let us know if you would like a workshop held in your region or for your company.

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 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.