

Wine Business Solutions



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# The Wine Paper 25

**March 2013**

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## ***The Future of Premium Wine***

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I love wine, you love wine, we all love wine. When it comes to commenting publicly on wine however, I figure there are more than enough people doing that already and believe differentiation to be the key to success. At some point however, it is vital to discuss what's in the bottle as central to delivering strategy. The product experience has to at least be consistent with what people want it to be and hopefully far exceeds expectations. This, in the end, is the most important thing for any business to understand.

If we're talking strategy - What are the key drivers of change? How is this affecting where opportunity lies, how is this changing the wines we need to make along with the way in which we need to go to market and how best can your business take advantage ? That is the focus of the opening sessions of our [workshops this year](#) which kick off next month.

If we are simply talking cyclical change then first and most importantly, we've got a global economy that is coming out of recession. We've got booming markets in the developing world lead by China, but we also have major opportunities in developed markets, some of which have been growing strongly at premium price points even whilst the wider economy in those countries struggles to get back on track. There has been a lot of excellent global supply and demand data produced in the early part of this year. We'll be using our own research and that data to highlight what the fastest growing markets, price points and wine styles are in the [workshop](#) introduction.

When talking change, a lot more focus is now being given to 'disruptive change' – sudden, often unpredictable shifts in markets that can both wipe companies out and create huge opportunities changing how markets operate forever. One example would be the iPad vs newspapers. One of our research associates has just completed a project looking at what The Australian newspaper does now that it has been caught up in disruptive change.

Most would rank the increasing dominance of supermarkets as the number one 'disruptive change'. Certainly it is for distributors and large companies. As we have been seeing, there is a lot less to be concerned about for premium brands with good On-Premise distribution, particularly if they are not category leading. These brands can do well selling through the chains albeit from a slightly tenuous position. This will only work, however, if brands have been built rock solid prior to supermarket listing.

So what of disruptive change in the premium wine market? I believe there are four fundamental drivers that have changed the market in ways that all wine businesses in Australia, New Zealand and South Africa will need to respond to:

## **Change One** – People Power and the Globalisation of Tastes

OK, it's not exactly a secret that the use of new communication technology has profoundly affected how people think about and chose wine. Principally, it has shifted power away from show judges and traditional wine critics towards bloggers and the wine interested community.

If you want to see clear evidence of this, [here is a link](#) to, I think, three of the best presentations on wine that you will ever see. Watch though, as the camera moves around the room. See the great names of the wine world. See who is not entirely happy about being there but knows that they have to be...

This has had a direct and dramatic effect upon what people are choosing to drink. Choice is being driven by what wine drinkers agree tastes 'good' rather than what they are told to drink by a handful of aging gentlemen. Word can and does spread like wildfire. There are no geographic boundaries.

When we first started researching the [UK On-Premise](#) market, we did so because it was the largest in the world for imported wine (Germany and the UK frequently trade 1<sup>st</sup> and 2<sup>nd</sup> spots). More importantly, there is virtually no domestic production or other biases so it acts as the litmus for the global competitiveness of countries, regions and wine styles.

Comparing the change in share of listings of wine styles provides very good insight into the effect of 'people power' on wine listings and the globalisation of tastes. Viewing the chart on the following page, you can see that "cool" white varietals (Sauvignon Blanc and Pinot Gris) win when 'people power' steps in. This will likely continue to strengthen if focus is on yields and quality. This is not the result of exchange rates, unfair economic agreements or fleeting fashion trends. This is the Aspirational consumer telling us what they like, that they feel good when they know what they're drinking and they will tell others.

You can also see that Chardonnay is under siege from Sauvignon Blanc in both markets. If Australian winemakers in particular want to promote 'New Chardonnay', it needs a brand. It can't be Chardonnay Nouveau (or even Two Point O) but it must be a name associated with a common set of quality attributes and rules that producers agree to abide by. You can't have a brand, a movement, much less a revolution unless your idea is easily communicated.

White Blends, on the other hand, offer a huge untapped market for New World producers. If warmer climate winemakers are to produce white wine styles that can be globally competitive, blends enable the sort of layered complexity that the Wine Appreciator consumer and sommeliers are looking for. They offer a world of possibility but again need branding.

It also requires changing the whole mind set around the quality of winemaking that goes into producing a world class blend.

**Figure One – Share of listings of White Wine Styles – Australia (left) vs UK (right)**

Varietal	2012	2011	Chg.	Varietal	2012	2011	Change
Chardonnay	23.5%	23.6%	-0.7%	Sauvignon Blanc	22.4%	20.4%	10%
Sauv Blanc	21.8%	20.2%	7.9%	Chardonnay	21.5%	23.4%	-8%
Riesling	13.9%	15.3%	-9.1%	White Blend	11.3%	11.6%	-3%
Pinot Gris/Grigio	12.7%	12.2%	3.6%	Pinot Gris/Grigio	10.3%	9.8%	5%
SSB	6.9%	7.3%	-6.1%	Chenin Blanc	5.7%	5.6%	1%
SBS	3.0%	1.7%	76.3%	Riesling	3.8%	4.6%	-17%
Semillon	2.8%	3.5%	-18.8%	Viognier	3.3%	3.3%	1%
Verdelho	2.6%	2.8%	-7.5%	Picpoul de Pinet	2.0%	1.3%	54%
White Blends	1.7%	1.7%	-2.6%	Gavi	1.8%	1.8%	4%
Moscato	1.6%	0.8%	97.7%	Albariño	1.8%	1.9%	-6%
Chenin Blanc	1.2%	1.3%	-2.9%	Muscadet	1.6%	1.5%	4%
Viognier	0.9%	1.6%	-42.0%	Gewürztraminer	1.3%	1.8%	-27%
Gewurztraminer	0.9%	1.7%	-50.8%	Semillon Sauvignon Blanc	1.3%	1.4%	-11%
CDW	0.8%	0.8%	-7.2%	Gruner Veltliner	1.2%	1.1%	12%
Gruner Veltliner	0.6%	0.5%	22.6%	Fiano	1.0%	0.5%	79%
Arneis	0.5%	0.3%	55.6%	Soave	1.0%	0.6%	65%
Pinot Blanc	0.5%	0.4%	15.3%	Viura	0.9%	0.4%	126%
Other Whites	4.2%	4.8%	-13.6%	Torrontes	0.9%	0.5%	71%
				Verdelho	0.8%	0.9%	-12%
				Semillon Chard	0.8%	0.8%	-3%

Under this scenario of people voting with their glasses, you can plainly see that hard tasting and/or hard to understand wine styles will likely continue to decline (young Semillon, Riesling, Verdelho). South African Chenin Blanc has neatly avoided this fate by making styles more akin to Pinot Grigio. The Argentinians are using Torrontes in the same way. The Languedoc (Picpoul de Pinet) and Piemonte (Gavi), on the other hand, have realised the world does not want them to make ‘New World Wine’, have reached back to their traditional varietals and made wines that are highly expressive of their region.

This doesn’t mean that winemakers have to go lurching after one trend or another. There are some fundamental long term changes that winemakers can and should rely upon. Firstly, Aspirational drinkers want pure clean fruit flavour and aromatics. And they want to know it’s good for the earth. Conversely, Wine Appreciators wanted layered complexity and want to be able to see through to where the wine comes from. As part of our workshop program we’ll also be looking at how the same forces are driving changes in the red wine and rose that people are choosing to drink. Our [Canadian Wine On-Premise](#) research provides further confirmation of these global trends. The 2013 report will be out shortly.

## **Change Two - The Arrival of Food**

When 5 Million people watch the final of the Australian series of Masterchef, you know that something fundamental in the market has changed. With Australians taking 6 times as many overseas trips as they did in 2005, again you have to expect that people's expectations where cuisine is concerned will be altered.

What you have as a result is a population (and this again is a global phenomenon) that is very much more attuned to its palate than it was five years ago, that thinks more about how wine and food work together than ever before and that expects the best possible advice around wine enhancing what they eat.

There has never been a time when winemakers have not talked about wine and food together but crafting wine styles that are truly food friendly is another thing altogether. Winemakers need to ask themselves seriously – “Do my wines really work with food like those of Tuscany / Piedmont / the Rhone etc. do?”

It is no secret that Australia has lost 20% of its export market value during the last four years. A mistake has been made, however in my view, in terms of who Australia has been watching during that time. All eyes have been on other New World producers (South American in particular) and the blame for loss of market share has been levelled at exchange rates and lower costs of production in those markets.

Whilst it certainly is the case that Chile and Argentina have grown, the wine that they produce and the price points they sell at are simply not relevant to most people reading this document.

Meanwhile, Italy has increased its value of exports by an amount equivalent to the entire value of Australian wine exports and Spain has increased exports by 24%. Now it is true that the home markets for these wines have been through hell and that exchange rates favoured them but something more important has been happening.

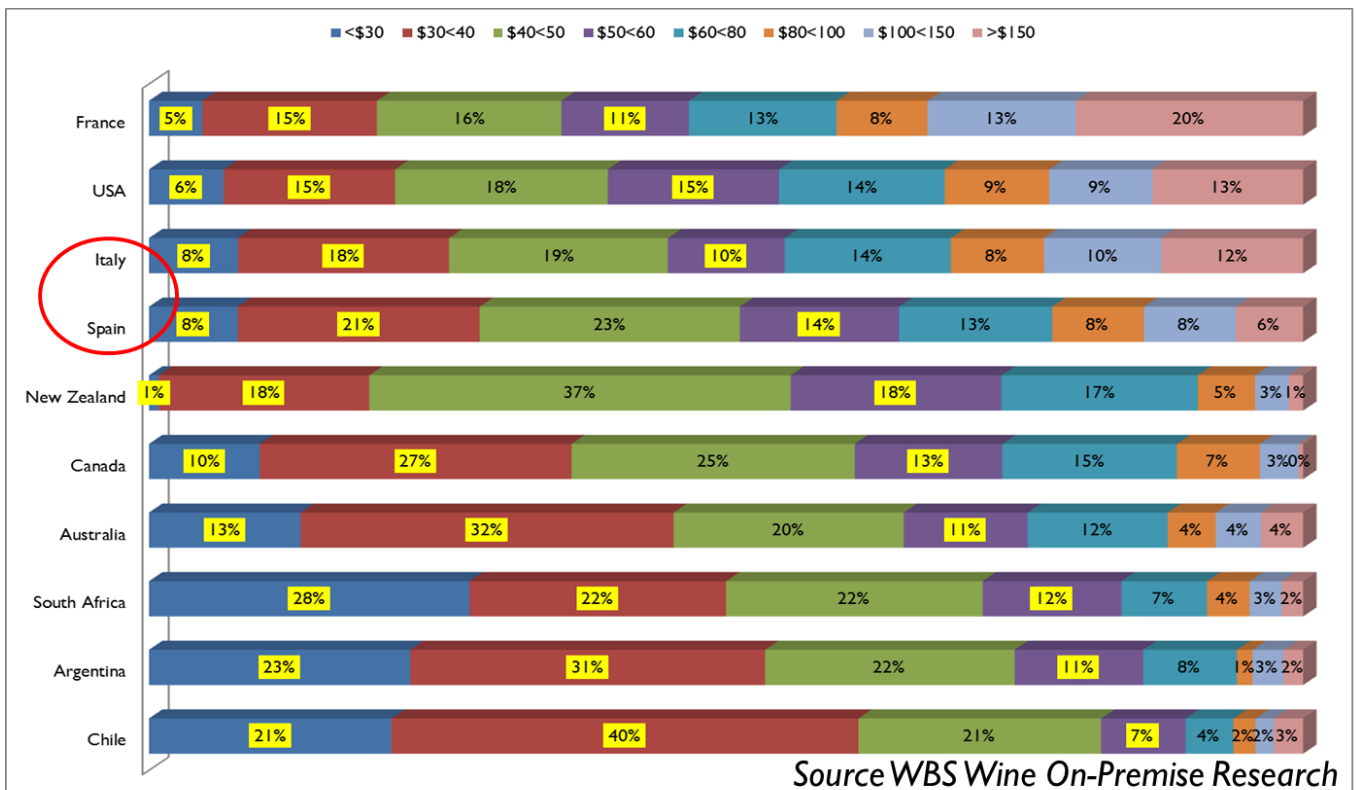
Italy and Spain have been quietly positioning themselves as premium brands in rapidly growing markets like Canada based upon their high level of food complementary and the ‘fashionability’ of their cuisines.

If Australia (and New Zealand more so) want to protect their long term position in the premium wine space, then more focus needs to go into making wines that are genuinely ‘food’ orientated and crafting a story around them. At the moment, only a handful of Australasian producers are truly onto this. There has never been a better time to go out and buy the competitor wines of the world and benchmark. Costco, for examples, is selling great examples from leading regions at half to a third of their long term average price.

Figure Two – Total Value of Wine Exports (excluding bulk) - \$US Million – Source IWSR

RANK Value/Volume 2011	COUNTRIES	2007	2011	Evol 07/11
1/3	France	9409.47	9902.64	5.24%
2/1	Italy	3967.70	6057.80	52.68%
3/2	Spain	2366.23	2941.41	24.31%
4/4	Australia	2483.90	1963.80	-20.94%
5/5	Chile	1264.70	1683.20	33.09%
6/6	USA	814.70	1147.30	40.82%
7/8	Argentina	378.05	847.60	124.20%
8/10	Germany	619.30	587.50	-5.13%
9/9	Portugal	264.60	366.40	38.47%

Figure Two – Canadian On-Premise Wine Listings by Price Point



### Change Three – Experiences driving Customer Acquisition

The Argentinian wine industry recently held an event called 'Camabalache'. The event targeted business professionals, cost £35 pounds a ticket and sold out in hours. It was billed as "not your typical trestle-table, tweed and tedium, slurping and spitting event." It was designed to replicate one night in Buenos Aires complete with street food, street artists and, of course, dancing in the street...

Andrew Maidment, UK director of Wines of Argentina, told Harpers. "I expected all the tickets to sell but not this quickly. The appetite for wine and food type experiences is obviously extremely high - as long as you sell it to people in a way they understand and it doesn't feel slightly boring or daunting for them to attend."



The Ivy in Sydney hosts similarly popular events if not yet as well differentiated from traditional wine tastings.

I believe the possibilities for regional and individual winery promotion using the same sort of platform are massive. We see it constantly when our best customers give it thought. We have a lot of good partners who can help turn these sorts of ideas into reality. We'll be looking at this as part of our [workshop program this year](#). We'll also be looking at marketing automation so as to make the promotion and sales components of holding events work more efficiently and effectively. Marketing Automation is, I believe, an area where most wine businesses can take the next step forward in terms of more effective direct to customer sales efforts.



## **Change Four** - The split between the “Artisanal” and the “Industrial”

Framing political arguments using ‘us and them’ terminology is not a new game in the wine industry. Family vs Corporate, Local vs Foreign Owned, Boutique vs Large Scale production – those sorts of divisive arguments have been around for years. The risk is that unless you provide a real reason to believe your product is better, you can end up just looking commercially jealous and therefore second best.

Whilst I am still not a fan of putting anyone down to make yourself look better as a strategy, the Natural Wine movement (or ‘Real Wine’ movement or whatever else it chooses to call itself) is succeeding in creating a split in the minds of the trade and leading edge consumers that is radically changing the market.

With so many film documentaries (Food Inc. Super-Size Me etc.) focusing in on how food quality is degenerating as the result of supermarket’s relentless quest to drive out cost, it was inevitable that consumers would ask the same questions about the process, provenance, purity and proprietorship of the earth in which grapes are grown.

This squarely hands the advantage to people who have been pursuing organic, biodynamic and other ‘natural’ wine making methodologies. All of a sudden, people like the [Milton’s](#), who have been quietly slogging away for 20 years or more to make better wine using more sustainable methods, have their day in the sun and collectives like the [Swartland Revolution](#) become recognised as producing some of the best wines in South Africa.

Now many I talk to think this is a “flash in the pan” and not really a threat to the wider wine industry. (Rupert Murdoch, owner of The Australian newspaper, felt the same way about social media). If you want to see proof to the contrary, you have only to attend any of the Artisanal and Sustainable wine fairs that are happening around the world currently.

I witnessed the revolution. I went to Rootstock in Sydney. I did not receive religion and I certainly don’t buy it all but I was one of the lucky 500 who managed to get in and not one of the 700 that were turned away at the last minute. The wines ranged from interesting to awe inspiring. The excitement was palpable.

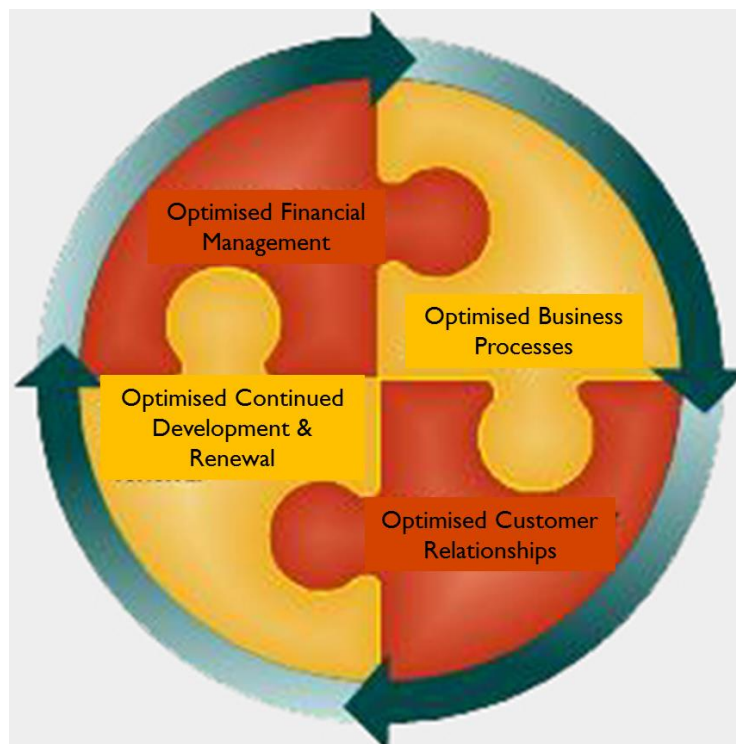
I gave the Sydney Wine Show lunch a miss for the first time in around 20 years. When I look at the list of ‘winners’ and weigh that against what everyone I know who is interested in wine is talking about, what used to be a schism is now a clearly a giant chasm.

## OPTIMISE YOUR WINE BUSINESS

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I was initially reluctant to use this as a title for this year's workshops fearing I might sound like one of those SEO spammers that plague us all day long.

In the end though, it neatly sums up what we are looking to achieve as the outcome. We'll be focusing on optimising customer relationships, understanding and responding to customer needs, improving profitability and refining business processes.



We will be building upon last year's understanding of how to create more business directly with customers and we'll examine all the latest tools tips and technology to help you build a better wine business.

We hope to see you or some of your team there.

# 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.