

Wine Business Solutions



The Wine Paper 27

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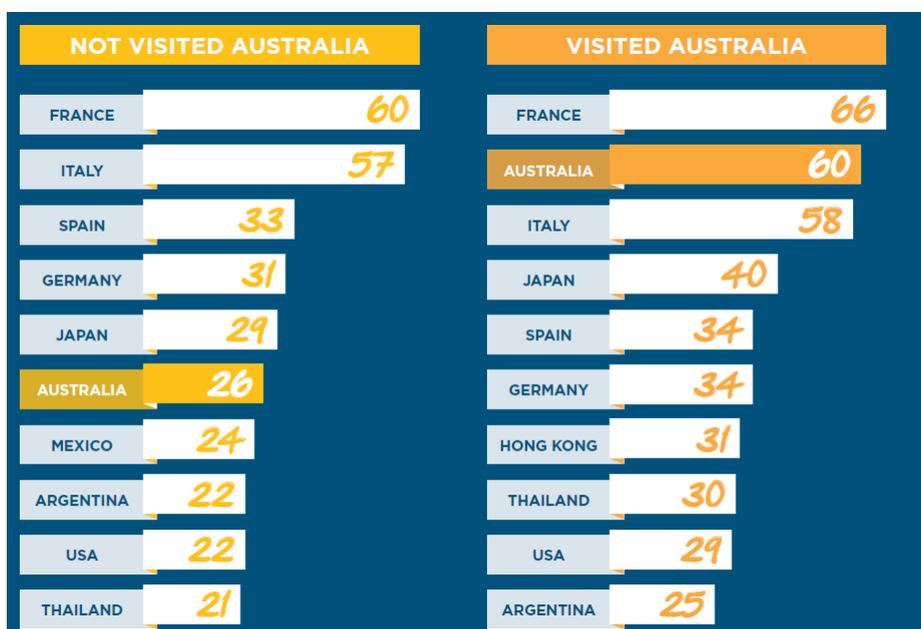
Page 12 – The Top Ten Tips for Building a Better Wine Business

All who attended the St Hugo Dinner at Savour (the global relaunch of the Australian wine brand) were amused by His Excellency, the Governor of South Australia, repeatedly calling it “Saviour”. But could it be? In nearly 30 years of working in the wine industry, I’ve never seen anything quite like it. The global wine media roll up, the key trade buyers present, the flood of participating wineries who ensured that all events sold out quickly and the sheer number / scale of events (not to mention the herculean efforts of the Wine Australia team in organising it all) made it the biggest and perhaps most important wine event that the Australian wine industry has ever staged. \$5Million is the rumoured cost of it all.

As a brand repositioning exercise, I believe it is a triumph. Truly great positioning, I think, taps into the very essence of a country, region or brand and leverages a profound truth in order to bridge the gap between what people believe and how stakeholders want / need to be seen.

The alliance between Wine Australia and Tourism Australia has resulted in the understanding, finally, that wine is food, that shared wine, food and travel experiences are one of the biggest drivers of tourism and that it is the idealised vision of travel within a country/region that generates desire for its products. France has the world’s most idealised food and wine offering. France is the world’s most visited country. Tourism Australia’s new brand positioning and subsequent advertising ties all of these ideas together in a way that is both right on trend where wine, food and travel fashion sit currently and that only Australia can truly own.

As to that profound truth, Tourism Australia research found that if people hadn’t been to Australia, only 26% associated Australia with great wine and food. For those that had, that number then shot up to 60%.





The next step was to bring together who Australians are with what Australia has in order to create a compelling idea. The result – *Restaurant Australia*.

There are three reasons why Australia offers food and wine experiences like nowhere else:

Our produce – it’s as **fresh and diverse as the unspoilt and varied land** it comes from.

Our people – we’re not bound by tradition, so **there’s a freedom and creativity to our food and wine culture.**

Our place – it’s what we’re famous for. Whether you eat in the open air, or even in the big cities, you’ll find there are **breathtaking backdrops** to match.



Restaurant

— AUSTRALIA —



Restaurant

— AUSTRALIA —



Savour capped off for me, the busiest and best six weeks of my working life. The Finlayson's Roadshow and subsequent consulting assignments took me to a dozen regions of Australia. The same questions were asked at all the various Roadshow locations as well as in our Savour workshop - "Does social media work, how often should I communicate with my database and how often should I ship if we start a commitment club?" These are all questions addressed by our [Taking the Direct Route 2013](#) Direct to Customer benchmarking report. *(By the way, 200 wine companies participated and 99 gave us their financial data making for a robust measure of the Australian, NZ and SA markets vs. the US. Thanks again to everyone who helped.)*

A much more profound question, however, related to the future of the wine industry. I kept getting asked, in a way that was almost rhetorical, what the future now holds. It frustrates me at times when I hear wine critics and others saying that they have no idea what will happen next where wine fashion is concerned when fine wine, in particular, is and always has been evolving in a way that is utterly predictable.

I therefore thought that it would be a good idea to discuss how the various sized wineries might either create their own momentum or best 'surf upon the bow wave' created by this huge thrust generated by Savour and Tourism Australia's investment in promoting wine and food related travel.

Wineries serving **Branded Wine Drinkers** as core customers

If there are new global brands to emerge, that usually requires creating your own momentum. John Casella realised that there was a massive group of people out there who liked the idea of wine but couldn't stand the taste of it = 12 Million cases of [yellow tail]. Pedro Ferrer realised that people wanted all the glamour and sex appeal of champagne without the price tag = 12 Million cases of Freixenet. There are numerous other unmet needs out there that will lead to the next 12 Million case brand. It's just a question of addressing these opportunities in a way that is very much slicker than Australia has done to date. If Australia is to position itself as smart where wine and food is concerned, how about popular wine that fits with people's lifestyles? [Georges Duboeuf's Hob Nob](#) range and web site provide a thought provoking starting point.

The most important thing for the largest companies who produce most of Australia's branded wine to do, if the Australian wine brand is to rebound, is not to try to push product into places where it doesn't belong. Our latest [Wine On-Premise Canada](#) research, for example, shows us that 61% of Australia's listings are from non-regional South Australia or South Eastern Australia compared to only 8% in Australia.

The Canadian public (and UK consumers to a lesser but still significant extent) are therefore drinking a completely different product to what the Australian restaurant goer is. This goes a long way to explaining those differences in perception as to what Australian wine is...

The same cannot be said of New Zealand whose offer looks broadly similar and is priced about the same in Australia, the UK and Canada. New Zealand is the fastest growing on-premise country category in all three markets. Australia is the fastest sinking. There is no corner to be turned until this gets sorted out.

South Africa play the same game in Canada as Australia do but with even more disastrous consequences. South Africa has never really managed to get going in the first place due to what Canadians typically get to drink when they buy SA wine on-premise. As with Australia, big companies buying on-premise distribution for commercial brands becomes self-defeating. You surf the backwash not the bow wave when you do that.

In order to bring things back to balance, it's not just a matter of the listed companies developing a credible on-premise offer and the right salesforce / supply chain etc. to sell it, (something none of them have been inclined to do to date) it's even more about Australia's fine wine producers becoming more export focused.

This is where the WET rebate has been having a major negative effect. Margaret River, for example, has more listings On-Premise domestically and more Nielsen audited off-premise sales than any Australian region and yet the Barossa exports 4 times as much wine by value. This at a time when premium Cabernet is in high demand in the US, China and other key markets. Australian success starts with changing the offer.

Wineries serving **Aspirational Wine Drinkers** as core customers

This is the domain most easily conquered by the large family wine companies but so far they have collectively shown about as much interest in this market segment as PM Tony Abbott has in having women on his front bench (Brown Brothers excepted). This denial / lack of interest is the principal reason why New Zealand has been so successful in the Australian market and with this consumer globally.

Delegats, for example, once looked like large Australian family wine companies. They had multiple ranges across all regions of New Zealand with multiple tiers in most of them as well as a raft of legacy products that were in decline. Rather than trying to sell what they had, they instead chose to wipe the floor and start again. They developed a value proposition that spoke directly to what this young woman (mainly) wanted - an easy to remember brand name, a brand name linked to desired experience and a flavour profile fitted to their palate. We're of course talking about Oyster Bay.

There are virtually limitless, easily executed ideas that will capture what the next generation of Aspirational wine drinkers wants. It's just a question of who has the guts to commercialise the 30,000 cases or so required to generate national distribution initially and turn one of these ideas into the next big thing.

Wineries serving **The Wine Appreciator** as core customers

Around 30 odd companies make the commodity that constitutes 85% of the Australian wine category. This is what global statements about “Australian wine” generally refer to. The making or breaking of the Australian category in the next 10 years is not about this product but what a united 2600 producers choose to do where Australian fine wine is concerned.

No country on earth has a bigger gap between its actual offer and the current perception of its brand. Only the US, amongst New World, producers has a larger and arguably more interesting offer in terms fine wine but they are increasingly less likely to look to sell it off shore as their own market booms and their economy recovers putting upward pressure on the \$US.

If the platform is ‘Restaurant Australia’, then it is the On-Premise where Australian wine must aim to rein supreme. You might well ask how this might be possible. As I discussed with Andrew Cheesman, the outgoing CEO of Wine Australia, Australia does not have a ‘cuisine’ it has very few ‘dishes’ and does not even have that many ingredients that are truly world class. Maggie Bear, Neil Perry and others repeatedly tell us that we have the best ingredients in the world but most of you reading this have been to markets in France, Italy and Spain...

But then I heard about a restaurant in Paris called [Bones](#). Here is a place doing what Wine Australia did for a week during Savour – taking brilliant ingredients and presenting them in their purest form in a lively informal atmosphere. If Parisians will line up around the block for this (and they are) then anything might be possible if each Australian wine business were to make their own unique contribution to this movement.

We have been talking all winter about wineries moving people from a standing situation to a seated one, from a product demonstration to a learning / pleasure based experience from a free sample to paid passionate presentation incorporating food. Many of our clients have or are about to visit South Africa where this is done better than anywhere else on earth at this point.



If the evolution of fine wine really is predictable, where is it heading? Logically, that can be answered by developing the keenest of understanding as to where food is going. If you don't cook, grow your own vegetables, get in to arguments about the best ingredients for you homemade muesli... - if eating isn't your grand passion, find someone in the family for whom it is. This is becoming critical.

Go into any good Australian restaurant today (Sixpenny in Stanmore, Biota Dining in the Southern Highlands or places of ilk in your neighbourhood) and you can see the way the tide is flowing without necessarily having to travel the world. Thanks to Pinterest, Instagram and Facebook, ideas spread like wildfire and take weeks rather than years to take hold. The advantage now lies with those who are bold enough to make their own interpretation rather than those who have the richest heritage.

What all good dining establishments globally are looking for is wines that are truly expressive of where they come from, that have the subtly, texture, nuance and complexity that enhances rather than fights with food.

This logically takes people to Burgundy (Pinot Noir and Chardonnay), the Rhone (Shiraz and Grenache blends), Spain (blends of Tempranillo), Italy (blends of Sangiovese and other Italian red varietals) as well as the more textured white wine blends that Europeans have been so quietly successful with whilst the New World obsesses over single varietals.

The secret is not to copy these styles but to take a much better understanding of them, thanks to the flood of imported wine that stronger currency has facilitated, and to then produce purer, brighter styles that beat, not just match, the best food wines in the world.

And anyone can do it. Bill Hardy introduced me to Hardy's HRB Chardonnay at Savour. What a knock out. In true big company style, it is sourced from two regions (Pemberton and the Yarra Valley). What's exciting is that this is precisely the sort of innovation that led to Australia's success in the first place only now it addresses an entirely different opportunity.

That is not to say that natural wine making, organic and biodynamic practices, making wine in amphorae etc. are not making their contribution to creating more interesting, diverse and food friendly wine. As the homepage of the Banrock Station web site proclaimed at the peak of Australia's wine power (paraphrasing) "We make really good wine". In other words, love all of our 'good for the earth / natural' credentials but trust what is in the bottle. This time around, Australia has one last chance to make good on the promise.

In relation to the future of wine, there are three critical questions that I get asked by people looking to make changes to their business so as to best benefit from this 'rising tide'.

A. What shall I plant?

Whilst I do insist that fine wine is evolving in an utterly predictable way, knowing what the wine industry will look like in ten years' time is, of course, impossible. In fact planting now based upon current popularity of grape varieties is the best way to guarantee that you will be out of sync when that time arrives.

In order to make those sort of bold projections, you have to draw from a knowledge of where wine has always been heading, from the wine styles that are now and have always been in demand on-premise, those styles mentioned earlier. If you were to look at planting Montepulciano D'Abruzzo or Tempranillo, as one example, that could be a good idea but perhaps the Barossa is not the place to do it. These are temperate climate varieties. Coonawarra, Central Victoria or Orange could be better bets.

Above and beyond all, it is about understanding what soils / terroir can do and matching clones that will generate the most elegant expression of each site. Victoria is currently leading on that score in Australia. Melbourne having the most evolved food culture / interest sommeliers in the country helps hugely.

B. What are the advantages of being a leader rather than a follower?

When one of my clients asked his lawyer for advice on an innovation he was contemplating he was told that he should wait and watch others fall on their face first. Whilst this is sensible at one level, it can also be crippling. Take Vanya Cullen in Margaret River and James Millton in Gisborne who for years battled in isolation suffering the slings and arrows of doubters. They believed that greater respect of the earth would lead to more beautifully expressed wines and wouldn't be dissuaded. Have a look at them now.

C. What is in it for me?

The greatest single reason to look to play to where the ball is going to be rather than where it is (Wayne Gretzky / Richie McCaw style) is that there is just so much more money in it when compared to competing in existing crowded categories. If you pioneer something, you own the idea and control price. For Australia, it's not just about how to create a profitable sustainable wine business, it's about how to work together to save the category. Savour on its own is not the Saviour but it has set the platform.

I was lucky enough to chair a panel session at Savour featuring some of the world's most high profile online wine retailers. These were Mike Osborne of [Wine.com](#), Josh Genderson of [Cellar.com](#), Dean Taylor of [Cracka](#) and Jared Liu of [YesMyWine](#), a Chinese web site with over 6 Million followers.

As China is such an important market for so many of our clients currently, I asked Jared what he thought Australian wineries could do if they were to improve their position in the Chinese market. He responded with this sage advice:

- 1) Develop a separate strategy for your online business.
- 2) Perhaps develop a different offer including labels specifically designed to work online. (*Note - When you visit Jared's site, you can see that some of top performing lines have labels that are truly eye-catching*).
- 3) Use this online offer to protect the price of your core offer.
- 4) Talk regularly with and influence distributors so that they keep consistent with your strategy.
- 5) Participate in or sponsor the topic events organised by the various promotional associations (*especially where the audience is one more predisposed to using new media*).
- 6) Position Australian wine using an international perspective to ensure that brands have a competitive edge in the Chinese market.

Author's Note: - Australia's market share has dropped from above 20% in 2008 to just over 12% now according to Rabobank / Chinese customs. France has significantly outplayed Australia and there is a lot of ground to make up. Developing internationally competitive strategies and market investment programs now is life or death as once categories mature, changing positions becomes extremely difficult.

- 7) Make a long-term plan with the right distributor.
- 8) Try to get more medals or high ratings that are recognised by the wine interested community in China to help sales on-line.

Pretty good advice where all online business is concerned, I'm sure you'll agree.

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.