Wine Business Solutions

The Wine Paper 28

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What Does Good Look Like?

What does good look like? It's a deceptively simple question. We recently completed an assignment with one of the world's largest wine companies and the project leader asked me exactly that, straight off the bat. It's the perfect way, I believe, to start the thought process for any assignment.

If any of you read the Harvard Business Review you would most likely have been as amused as I was with the finding that after 30 years of top selling business books like Peters and Waterman's 'In Search of Excellence' and Jim Collins's 'Good to Great' that there were in fact, very few of those companies held out as either 'great' or 'excellent' that didn't shortly thereafter revert to the mean or worse.

Raynor and Ahmed, in their HBR cover story of April this year, discuss how, in their analysis of 25,000 companies from 1966 to 2010, just three ideas separate outstanding long term performers from the rest;

1. Better before cheaper—in other words, compete on differentiators other than price.
2. Revenue before cost—that is, prioritise increasing revenue over reducing costs.
3. There are no other rules—so change anything you must to follow Rules 1 and 2.

When discussing global best practice in the wine industry it is therefore better I think, not to hold out individual companies as heroes but rather to focus upon where we see the cutting edge of competition in each respective space and discuss the observable principals of becoming a great wine business.

Best to start with direct to customer, I feel, as the growth in importance of direct to customer sales is something many in the wider trade may be missing. We recently completed our [2013 Direct to Customer Benchmarking] study. Our research looks at Australian, New Zealand and South African wine companies and benchmarks them against US ones, through posing the same questions asked in similar US research.

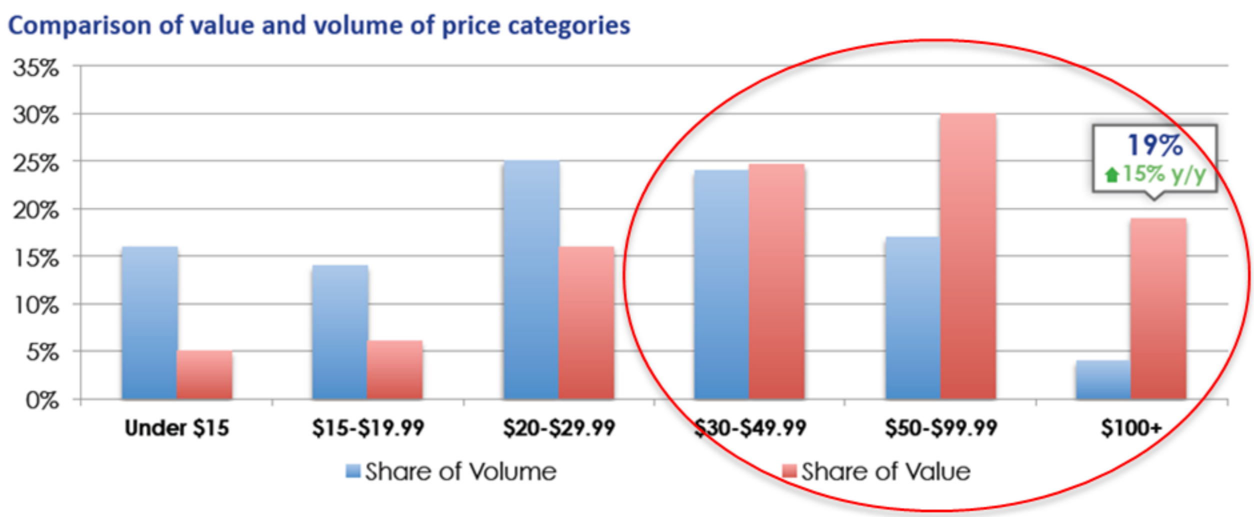
For the purpose of our research, we define 'direct' as cellar door, wine club and web site sales along with wine sales at events as well as sales through 3rd party telemarketers, something done extremely well by a handful of Australian based firms. We also included sales through 3rd party online retailers, even though not all of their suppliers accept their stories that they are their 'outsourced online direct sales buddies'.

Altogether, 99 companies provided us with their financial data. For companies producing less than 50,000 cases (80% of respondents) on average, 41% of their revenue is now derived from these direct sales channels

When you consider that these sales (other than those through 3rd parties) typically generate 8-10 times the profit of export sales run through three tiers of distribution then it is very clear that it is already game over. That revolution that everyone had been talking about has already happened whilst some slept. But it is not an online sales revolution. Sales through wineries' own web sites constituted just 2% of direct revenue. It's a revolution in how the fine wine sector engages with and sells to their customers.

The same thing, of course, is happening in the US. Direct Shipments are now worth $US1.56 Billion. This is more than the value of US exports. (It's almost more than the value of Australian wine exports…) and 75% of the value of those sales are above $30 a bottle. 19% of sales are at above $US100 per bottle.

Figure 1 – Total US Direct to Customer Shipments – Source, Ship Compliant



So what is direct to customer best practice then? What is the ideal?

To our way of thinking at least, it is this:

1. Everyone in the business understands what DtC is, what it is for and what it is worth to the business.

   One of the main reasons why large companies have been missing the opportunity is that, from our benchmarking, companies producing more than half a million cases derive only 4% of revenue from direct sales so it could easily be overlooked as unimportant. That is not a 'mode' figure, either. Some are doing well and others are doing nothing at all. In the US direct shipments represent just 0.5% of large company's production, according to Ship Compliant.

   There are some very good reasons why doing anything that is technology dependent and process driven is challenging in a large company but we're becoming expert, we'd like to think, in overcoming these obstacles.

   Another bigger issue for some of those companies that really ought to be mastering this, given their size and market position, is that decisions around what to do sit with junior sales and marketing staff who are unaware of the commercial imperative to get cracking.

   Regions that have strong export markets tend to be least focused on direct business and are missing huge opportunities to become more profitable. Marlborough, for example is, from our research, the least active region in the three countries.

   The Hunter Valley, by stark contrast, has had its export and domestic markets decimated as the $A rose and fashion moved against Semillon but are collectively one of the most evolved and successful regions when it comes to direct sales.

2. Complete alignment between each brand's core customer and their desired experience.

   Different brands / wine businesses require very different consumer engagement strategies in order to optimise their direct to customer sales.

   This is where we believe we add most value. We see best practice through dealing with all manner of wine businesses across every region and market sector.

3. Fully integrated Systems, Software and Processes

   We are getting closer every day to the ideal of the all in one, full integrated, cloud based software solution for the wine industry but to this point, it remains illusory.

   We work hard to stay on top of evolution in this area so as to provide best quality advice to clients.

   We take or receive commissions from no one, not just because we want stay pure as an advisory firm. All too often, given the highly competitive nature of the business, tech companies over promise and under-deliver. No one wants to be accused of that.

4. Integrated Communication Strategy

   Simply put, this is a plan as to who will say what to whom, about what, using what media and how often. I saw during the week, a summary of five US wineries who had used social media to sell wine. The examples were mostly dated and, I thought, not really that compelling.

   We do have a customer who has very recently sold 800 cases of new release wine that has no other distribution, purely through using social media. We are not claiming any credit here as this was entirely their own ingenuity at work in terms of how they sought to engage and expand their network. It does, however provide proof that it can be done.

5. Marketing Automation used optimally

   Marketing automation is an old idea but software such as Marketo now allows companies to conduct highly sophisticated, integrate sales lead and marketing communication management. We have plenty of information on this topic area if you are interested in learning more.

6. Everyone in the business performing their role in securing customer preference.

   Here, I am borrowing from Tim Abler and his wonderful book 'Marketing and the Bottom Line' where he talks about how marketing is not what marketing people do but what the whole company does to secure customer preference.

   The ideal where social media is concerned, for example, is to have everyone in the business contributing responsibly and usefully to the consumer 'polylogue'.

One of the unintended consequences of our research into the On-Premise wine trade in the UK, Canada and Australia is that we now have a large number of distributors as clients. This is useful, as you can imagine, for all sorts of reasons. Through our research into who the best distributors are in the markets we cover, by working closely with distributors as consulting clients and having worked as a brand principal, managing global distribution for over a decade, I believe that we have a good handle on what makes a great distributor.

If choosing a distributor, I would say that these are the most important things to look for;

1. Number one all day long is – "Do they get brands?" It shouldn't have to be said that brands are how all wine businesses, at every stage in the supply chain make a margin that is better than that received for commodity trading. Brands are therefore the key to sustainability for all but trading businesses that have a cost advantage. The best US importers absolutely set the wine brand building standard.

   It beggars belief, however, how many high profile distribution companies use country, region and wine style as portfolio search terms rather than brand. Remember that around 93% of all product search now start on-line. What this says to their trade customers is "love us and we'll sell you some wine. Any wine". What this encourages is price shopping and disloyalty.

2. Do they have a properly functioning web site and have they even heard of SEO and SEM? There are still a mad amount of wine distribution businesses that don't have a web site. When you consider that you can set up a pretty smart looking fully e-commerce enabled web site in an afternoon for less than $US1500, why on earth wouldn't you?

   Many UK major distributors haven't even bothered to secure search terms for their exclusive brands. They don't seem to realise that online businesses, who also do direct to trade sales as well as the pure direct to trade players, are stealing their business, taking at least a margin and, in some cases, all of it. In Australia, category killing retailer Dan Murphys is already amongst the top ten trade suppliers. Should this concern suppliers? Well yes, I believe it should. You want your principal importer to be transacting as much of your business as possible in order that they own the customer relationship and can invest in brand building with reliability. We predict that distributor businesses that do not get on top of online selling to trade and search engine marketing etc. are going to struggle to survive in the medium term and that distributors who use integrated supply chain, CRM salesforce automation and ecommerce software solutions are going to run over those who do not.

3. Can they sell fine wine and do they achieve wide-ranging listings – That is what our on-premise research is first and foremost designed to assess.

4. Do they have a strong brand portfolio? This is something all wine business owners really ought to devote a lot more time to understanding. Who would you look good next to? This has been the downfall of certain Australian companies, in particular, who have look to cluster with countrymen who have a non-competing offer. It may just be that the brand owner that they followed in didn't know any more than they did and that they, whilst feeling good hanging out together, are stuck with a distributor who can't sell wine.

5. Are they chasing the front end of the market? The part of the market that is at the limit of what the consumer will pay is always the fastest growing and most profitable. This is where you want your distributor to be aiming always. Distributors who rush to fill their portfolio with low-end wines when times get tough (as is happening right now in the UK and as was happening immediately post GFC in Australia) are to be avoided like the plague. What this does is drag their staff to outlets that they are not used to dealing with where they have to compete with people who have a lower cost base and who know the cheap end of town very much better. It might produce some cash quickly but meanwhile, their more focused competitors will be stealing their (your) quality customers.

6. Are they in the habit of producing competing products of their own?

   As Will Taylor pointed out fearlessly during this year's Finlayson's Roadshow, your distribution agreement should always preclude this. More distributors are trying this on and this is absolutely not in the interest of brand owners, regions and country categories as very few distributors know how or have the right resources to create authentic, sustainable brands.

7. Are they operating at the edge?

   The most successful distributors currently are employing 'sommeliers to talk to sommeliers' as the growth in consumer and trade sophistication brought about by the explosion of interest in food in Anglo-Saxon markets has outstripped some distributors ability to keep up.

For those that would like to know more, we have a white paper designed to be the complete guide to managing the front end of your business, so as to optimise profits. Winning by a Margin discusses optimising pricing, setting distributor margins and managing A & P budgets, so as to best build your brand whilst making the most of your distributor relationships.

No, it is not "Costcoworths" a merger between Costo, Tesco and Woolworths…

Lavinia is a chain that started in Madrid and now has its flagship in Boulevard la Madeleine, Paris. Its claim to greatness is that it combines almost every good idea about fine wine retailing ever encountered. There are wine journeys you can take, information resources everywhere, tasting vials of flavour components and walls of enotmatics. Best of all, I think, is that you can choose any bottle at retail price and have it with lunch in their very good restaurant.

Lavinia is proof positives that the 'Apple iStore' concept in the wine space not only exists but has worked across multiple locations since the 1990s. Hopefully we'll see something similar outside of Europe soon.


MOËT
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ICE IMPÉRIAL


LA CAVE
CHEVAL BLANC
VEGA SICILIA
ALLEMAGNE
DOMAINE DE
LA ROMANÉE CONTI
PETRUS
AUSONE
CHÂTEAU
MARGAUX
NOUVELLE-ZELANDE

What about wineries themselves? What are the hallmarks of "greatness" and how might they be achieved? I thought it might be useful to discuss what distributors tell us about what they want to see as part of answering that question.

1. Everyone wants to work with a quality leader. Of course there can only be one of those from each region but think what an advantage they have. Think of Jeffrey Grosset from Clare, Ivan Sutherland and James Healy from Marlborough, Martin Shaw and Michael Hill Smith from the Adelaide Hills. I did say I wouldn't hold out companies as heroes but wine is one of those businesses where, if perfectionists remain focused, excellence is usually within view.

2. Quoting one of our distributor clients – "I'm always intrigued by people who are the nicest people in the world (as wine people so often are) who are curiously absent when it comes to the job of brand building." Yes, distributors want you to be respectful of their time and only want to see suppliers who can positively contribute to the sales effort but at the end of the day, this is a team exercise. Great companies know how to choose and manage distributors as core capability.

3. No one wants to work with people who are in a hurry. People who acquire to grow quickly almost always swallow a bad meal. People who say, "Wouldn't it be great if we could turn all of our vineyard into wine and use all of our winery capacity" are almost always doing all of the wrong things for all of the wrong reasons.

4. Distributors love businesses who understand their competitive set, know the 'shape of their market' understand how to dominate a category and hold onto a leadership position. We analysed the Australian premium sparkling category for a client recently. One brand had a 31% share. The other had 6%. Both brands are equally well known to the wine community. Most would only be guessing if they picked the biggest seller. One brand plays a spectacularly better game than the other in fact.

5. I was reading the other evening about my old company, Freixenet, and how they are now the biggest company in Spain with a turnover exceeding half a billion Euros. I remember the export director asking me once – why are we successful? Why is the main hall at Vinexpo full of a thousand companies who are not so? To me it was simple. They created products no one had dreamed of and that no one could copy. They chose always to grow new markets rather than worry too much about the cost of doing so. Sound familiar? Beyond that though, they always treated everyone with absolute respect. That, in my mind at least, is the hallmark of a truly great company.

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.

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