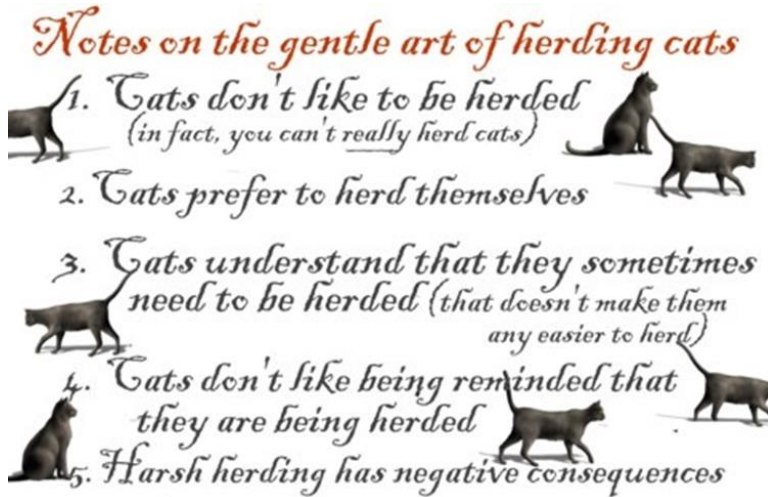


Wine Business Solutions



The Wine Paper 29

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Developing Winning Globally Strategy

Page 3 – On Herding Cats

Page 4 – Laddering Up

Page 9 – Fighting to Win

Page 11 – The Top Ten Tips for Building a Better Wine Business

I was recently called upon to address the Austrian wine industry in relation to developing winning global strategy. This was a daunting proposition, if ever there was one. Not only has the [Austrian Wine Marketing Board](#) clearly identified who their primary customer is and what their value proposition for them is, they have managed to sum up in a single sentence, the essential character of Austrian wines that sets them apart, conceptually, from all others. And they've been making wine for around 4000 years or so...

Having been involved with regional and national organisations both in leadership and consulting roles, I can't tell you how difficult this is. A former Chairman of New Zealand Winegrowers, for example, simply refused to declare any strategy during a period of almost 15 years citing overplanting, the undesirable response to Australia's attempts to organise itself around a strategy, as the reason New Zealand should not have one. This resulted in the delay of New Zealand's effective entry into international markets by around 10 years. It also meant that when New Zealand's big surge finally came under its own steam, that Chairman's company wasn't prepared for it and was run over by Delegats (Oyster Bay) and Giesen etc.

Given the mad rush that was taking place in the 90s with Australia, Chile and South Africa all making their big push at the same time, this may not have been entirely a bad thing. The 'millennial stage' was thereafter left open for New Zealand and Argentina as the new entrants upon the global wine scene. Both have grasped their opportunity. The big question is - Just how much better things might be today for New Zealand producers if the industry had been properly organised around a focused strategy in the mid-1990s?

As anyone who has been on a regional committee or worked in a large organisation will tell you, the job of setting and imbedding strategy is one of the toughest there is. As Willie Klinger and his team at the Austrian Wine Marketing Board have shown us, it is both entirely possible and absolutely necessary.



There is still a lot written about there being no good agreement in relation to what strategy actually is. This, to me at least, is highly irrational. Strategy is simply the process of working out;

- who you want as a customer,
- what it is that they ultimately desire from the experience of your class of product,
- positioning your brand as the most logical source from which they might achieve that outcome and
- communicating this powerfully.

Let's have a look at how the world's most effective drinks marketer has done it.

Figure 1 – The Evolution of Coca Cola's Marketing



What you can plainly see is that Coke, over the course of a century, have elevated their appeals up the old Maslow's Hierarchy of Needs until, finally, that thing which we all desire most is addressed - happiness.

You may now be asking just what it is that wine drinkers so desire? You don't have to spend hundreds of thousands of dollars / euros of your own money to find this out. The key work on this took place during almost two decades from the mid 1980s through to the early 2000s.

Figure 2 – Ultimate End Values Sought by Major Wine Customer Segments

| Brand | Target Customer | Benefits Sought | End Values Sought |
|---------------|------------------------|--|---|
| Lafite | Connoisseur Collectors | Discernable quality and Prestige Brand Association | Sense of accomplishment Comfortable Life Social Recognition World at peace Equality |
| Chapoutier | Appreciators | Discovery and learning | Social Recognition * Exciting life Sense of Accomplishment |
| Oyster Bay | Aspirants | Enhanced Social Status and Self Image | World at peace Social Recognition True Friendship Exciting life Sense of Accomplishment |
| [yellow tail] | Enjoyment Orientated | Special to share, Easy to drink | True Friendship |
| Lindemans | Beverage Wine Drinkers | Recommended Reliability | Inner Harmony |

Hall, J., & Winchester, M.K., (2000). What's really driving wine consumers? Australian and New Zealand Wine Industry Journal, Vol 15(4), 68-72.

**Added in. Not proven by this research*

Now I'm not trying to suggest that there are only five types of people in the world. 'Big Data' analysis has now become so sophisticated that millions of lines of it are being used to precisely target individuals with tailored offers. The LAPD, for example, is now using predictive data analysis to successfully anticipate crime.

What I am saying is that there are at least five different types of wine business that produce completely different products that have different paths to market and entirely different target consumers who require utterly different messaging.

Robert Joseph has even gone so far as to suggest that these beverages should have different names. Whilst this unlikely to actually happen, I think anything that encourages the industry to think about these opportunities as distinct is a good thing. Most national bodies think only in terms of volume and value.

You can argue about whether someone is a 'sporadic sipper' or a 'compulsive chugger' or whatever a research agency wants to call consumer behavioural segments but getting the five ideas above somehow misaligned, either within the organisation or in the minds of its leaders, is at the root of most of the strategic issues that I have been called upon to address during my last 11 years of consulting.

The big difference between now and twenty years ago, when most of this research was being carried out is that wines viewed as collectable, wines that won show medals and wines drunk on a daily basis by Appreciators were fairly much one and the same. Now, there is a chasmic divide between show wines, especially those produced by large companies and the wines sommeliers tend to get excited about today. With the advent of investment grade wine becoming so expensive that people no longer drink it, we are also seeing a situation where the wine Appreciator may be a more sophisticated consumer than Collectors.

What drives this Appreciator segment was therefore not investigated at the time Hall and Winchester did this research. We can only guess at that, based upon Maslow's Hierarchy of Needs. This, I believe, is worth investing in to investigate and we're more than happy to help any organisation that wishes to pursue it. I presented this idea to Paul Henry when he was head of Wine Australia but the look on his face told me immediately of how he had been battered down in his attempts to have marketing research funded. This is not, however, just marketing research. As we shall see, this truly is the stuff nations rise and fall upon.

If we take a thirty year view looking forward, the basis of my Austrian presentation, we should start with a short history as a lens through which to look to see the future. In the 1980's Beverage wine ruled. Better if you could buy 3 litres in a box than 2 in a jar. In the 1990's, Branded wines emerged as a way to give the mass market trust in 750ml product. Australia won that one.

The 2000s were the era of the Aspirational wine drinker. People gained confidence and trust in ideas like Sauvignon Blanc, commercial Pinot Noir, Pinot Gris / Grigio, and Malbec. Marlborough, the Veneto and Argentina respectively cashed in massively and continue to do so. They had huge quantities of product that tasted as the consumer wished it to and it was all basically the same.

Figure 3 – New Zealand's share of value of the Australian Wine Market. Source – NZ Winegrowers

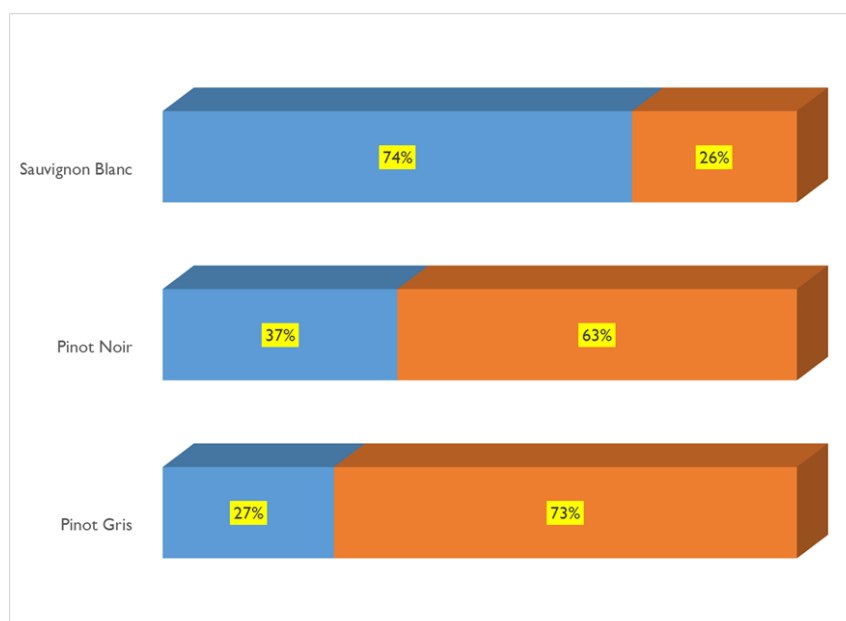


Figure 4 – Share of Red Wine On-Premise Listings. Source-WBS Research. US Data WineMetrics (2011 vs '12)

| Style | Market | 2013 | 2012 | Change |
|-----------------|-----------|-------|-------|--------|
| Bordeaux Blends | UK | 7.2% | 10.2% | -29.4% |
| | Australia | 4.1% | 4.7% | -12.1% |
| | Canada | 4.6% | 5.6% | -18.2% |
| | US | 4.4% | 5.5% | -15.0% |
| Malbec | UK | 6.8% | 5.1% | 34.7% |
| | Australia | 1.0% | 0.8% | 26.9% |
| | Canada | 4.7% | 3.4% | 37.7% |
| | US | 2.7% | 2.0% | 32.0% |
| Pinot Noir | UK | 10.1% | 11.3% | -10.0% |
| | Australia | 18.4% | 16.9% | 9.1% |
| | Canada | 10.5% | 9.2% | 14.5% |
| | US | 9.6% | 8.3% | 15.0% |

Australia missed that boat. It should have been Shiraz and Chardonnay but industry structure determined that the largest companies collectively were still targeting these ideas predominantly at the Branded wine consumer at the time that the market had moved on.

Think of how beautifully Rosemount was positioned in the US prior to the arrival of [yellow tail]. Imagine the Australian wine category if Rosemount had held its \$12-15 price position, kept its distributors and made wines of a style and quality that the Aspirational customer would love to drink. The battle for the US branded wine consumer was done and dusted by 2005. Rosemount chose to fight [yellow tail] in the street. When it was over Rosemount and the rest of Australia lost the US market.

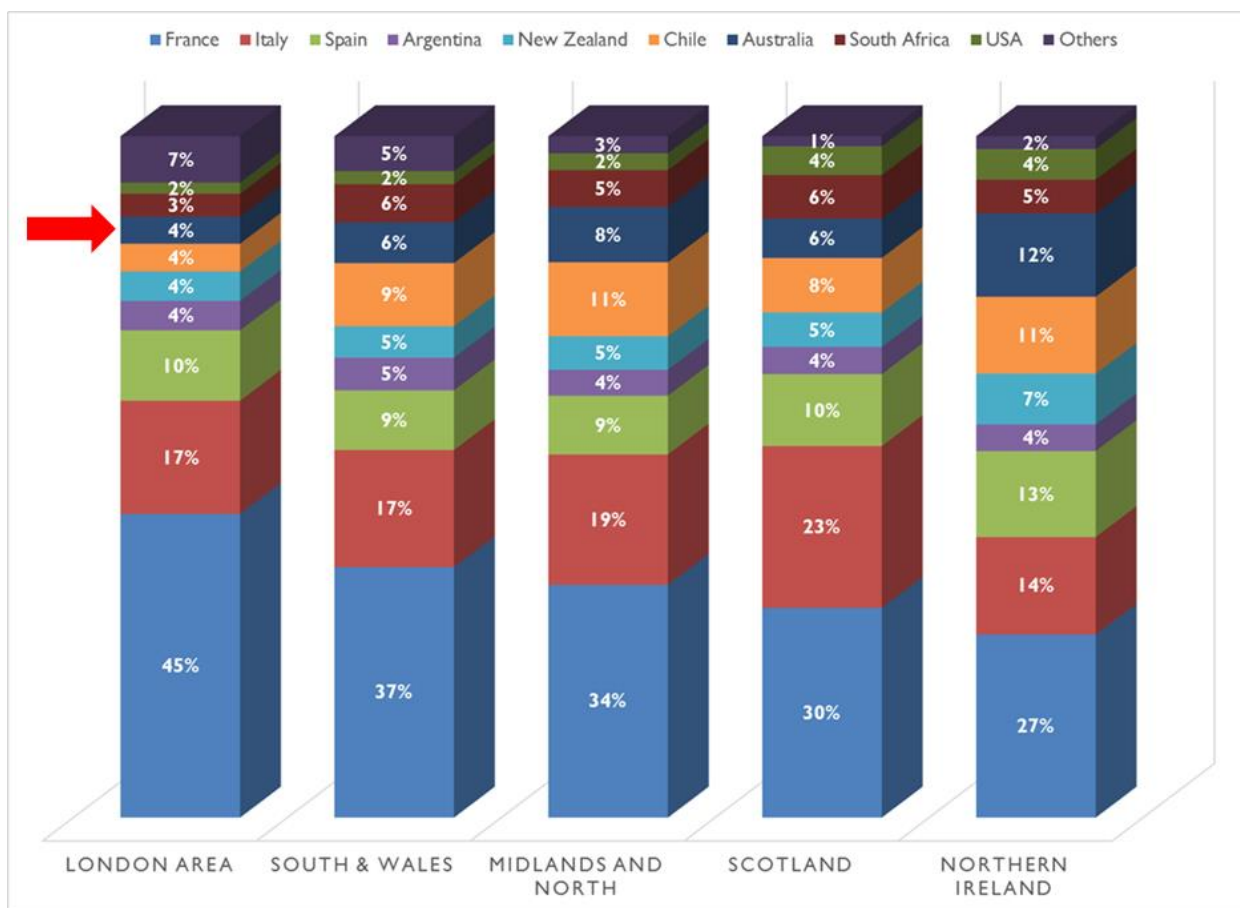
The same thing happened to New Zealand’s biggest wine company. They thought that the market was going to be driven by supermarket shelf facings. They had the lowest cost base. They couldn’t see how they could lose. They hadn’t anticipated that the market was instead going to be led on-premise initially by higher priced product representing a better value proposition to an Aspirational customer and that, in fact, the closer you got to the limit of what the consumer would pay, the more valued the brand is.

Take for example Cloudy Bay. LVMH know that \$US32 (approximately) is the limit of what the Aspirational customer will pay for a special occasion wine. Cloudy Bay is the most listed still wine in the [UK On-Premise](#).

What then is next? Well logically it’s the rise of the sophisticated drinker as the dominant consumer. The baton is already changing hands and the war will be won by those countries who can successfully positioned their brand as the source of exciting wine experiences. France is obviously, the most, well-endowed overall. They are also the most dynamic, a frightening prospect for competitors. After all, they practically invented the idea of wine as a gastronomic element in its own right rather than simply an accompaniment to a meal.

As in the chart below, the die may already have been cast in the UK. If we accept that London sets the trend in that market for the next 15 years or so and that Northern Ireland is perhaps 15 years behind, things look great for France and fairly sick for Australia, Chile and South Africa. Italy and Spain look solid although the pressure is on Italy to continue to innovate. Argentina and New Zealand are at a crossroads.

Figure 5 – The Share of Listings Held by the Major Supplier Countries by Market – Source WBS research



Industry structure is still the biggest issue for Australian, South African and Chilean companies. The harder the big companies push product into supermarkets, the faster branded product gets pushed off wine lists and the harder it becomes for those countries to change perceptions. Australia currently only exports 16% of its wine with a region on the label (other than SEA or home State branding). It's going to be very hard to change Australia's international reputation until that becomes at least 25%, in my view.

Similarly the very straight forward nature of Marlborough Sauvignon Blanc and Mendoza Malbec are precisely what the sophisticated wine drinker does not want and will be the undoing of their respective countries if they fail to change their image and offer during the next five years or so. Australians have been wishing this upon New Zealand for a long time but now it is becoming clear that it will happen and that it is only a matter of time, all be it that New Zealand will sell a poulitice of wine in North America before this comes to pass. New Zealand is totally set to grow with Sauvignon Blanc and Pinot in the US and Canada.

If you want to fight and win, whether it's your business, your region or your country, you need a strategy. As with the Coca Cola example, there are four main steps on the brand positioning evolutionary ladder. Each one becomes more effective as your audience evolves.

0. **No Strategy** – worked OK for New Zealand for a long time. They planted in-demand varietals. People liked the wine. They planted more. The problem is that if the market changes, how do you organise to move with it? The Australia A⁺ exercise is another example. In inviting all winemakers to tell their story, stepping back and letting the members define what Australian wine is, this is not strategy but an abdication from the task that guarantees that the consumer will have no clear picture.
1. **Who we are** – This is what happens when you get a PR agency to do strategy for you. They will typically ask everyone what they want to say about themselves and they will tell the agency that they are nice people, have children and dogs etc. What so often doesn't get addressed using this approach is making wine that people want to drink. Some major Australian regions have been undone in this way. It's like going on a date. You usually get on somewhat better asking the other person about themselves and what they want than you do talking about yourself the whole time.
2. **What we've got** – This is what happens when you use an advertising agency to do strategy for you. Typically, you end up with a meaningless platitude. Think of the 'Pure Discovery' positioning used by New Zealand currently. This caused a huge furore at time of launch and it should have. They gave up "The riches of a clean green land" as their platform. See now how important natural / sustainable / organic / biodynamic winemaking practices have become for all segments and how valued clean sources of food are to the Chinese etc. It's the same deal in South Africa. They talk about "variety in their nature" for the same reason that New Zealand call upon discovery. This is an easier approach politically (it excludes no one) than actually committing to what your brand is, what it does, how it makes you feel, how it is different and therefore why anyone should buy it.
3. **Why that's good** – Here the new 'Restaurant Australia' platform ticks a few boxes. If a 'world at peace' is the ultimate end value sought by Aspirational wine consumers, where would you rather be than in a cloudy bay opening oysters? (Sounds familiar somehow...) For the discovery and adventure orientated consumer, when would you feel more alive than standing up to your waste in cold water first thing in the morning, your breakfast still moving and with a delicious glass of the finest at the ready. Australia will have to be careful how it sells that message in China but otherwise I think this has some real promise. The key is to talk to Chinese aspiration and promote hedonistic enjoyment.



4. How it will ultimately make you feel – When I worked for Freixenet we wanted to attack this opportunity of finding a global brand positioning that spoke to what people actually wanted from the sparkling wine experience. We undertook research in both Australia and Germany. Surprising many doubters, we reached precisely the same conclusion in both markets. Whenever two people clink their glasses anywhere in the world, they are anticipating pretty much the same thing. They are expecting some excitement. They feel elated. They are hopeful of something romantic / erotic (for men) and expect to become uninhibited.

Now you might argue that this is hardly revelatory but the fact is that no major brand had attempted this at that point. Pretty much all previous sparkling wine brand communication could be said to fall into four quadrants. There was the simple boy / girl / bottle of bubbly scenario, the generic celebration positioning used by Great Western and the like, the wine positioning (very few people drink sparkling wine purely for its sensory properties) and the prestige positioning used so well by the Champenoise. Freixenet's exports had been stagnant for 3-4 years at around 3 Million cases. By shifting all communications into this territory and doing so globally, Freixenet was able to treble its exports of sparkling wine lifting to 9 million cases in just 5 years whilst becoming the biggest selling sparkling wine on the planet in the process.

This forever convinced me that applying this approach to positioning a brand, region or country is the key to competitive advantage. 1.7 billion serves of Coke a day can't be wrong. As always, we'd love to help if we can.

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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