Wine Business Solutions

# The Wine Paper 34

## January 2015

# *Winning in the World's Largest Wine Market*

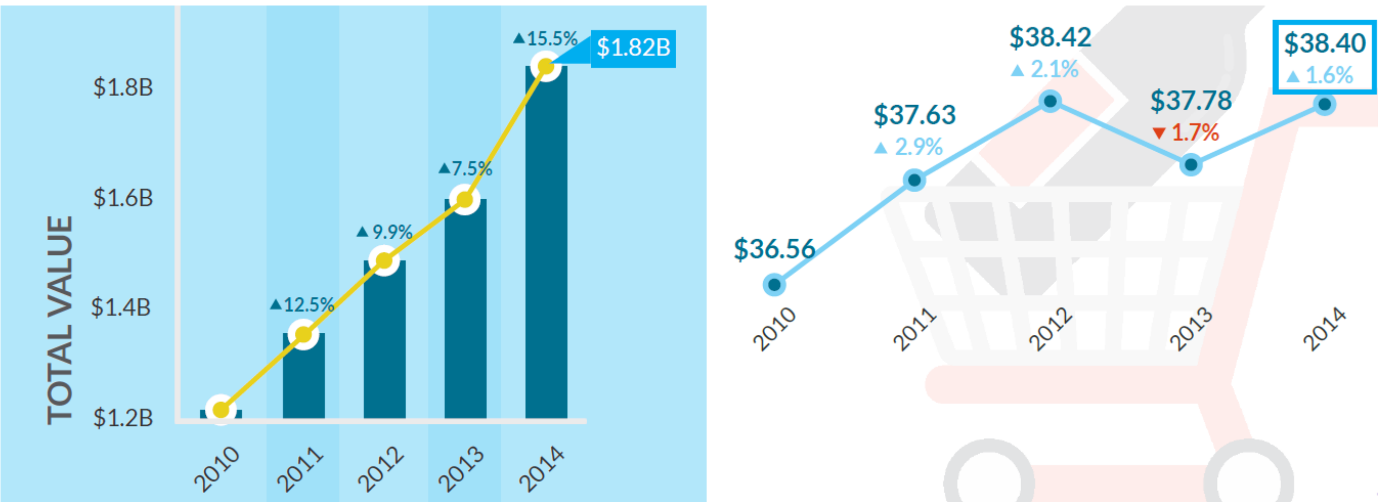
What's not to like about the US market? It's massive, it's got momentum and it's growing fastest at the top end. This is the situation now as the economy just starts to rebound from the GFC. Imagine what happens when it starts running hot. With falling oil prices calculated to add around a quarter of a trillion dollars to the US economy, strong jobs growth and the $US strengthening, the outlook looks very bright indeed.

According to Silicon Valley Bank's 2015 State of the Wine Industry Report – "We are predicting a breakout year of growth in the fine wine category ($20 plus) in the **14–18 percent range in 2015.** 'Trading up' is a clear trend again. Red wines in particular showed the strongest growth."

This is backed up by the latest Ship Compliant 'Direct to Customer Report', also released this week. According to the report – "The total value of the winery DTC shipping channel **increased a whopping 15.5% over 2013 and reached $US1.82 billion in sales**".

"Total volume of wine shipped DtC (from winery to consumer) increased 13.6% to 3.95 million cases. Both these figures represent record increases. Perhaps more importantly, the average price per bottle of wine shipped increased 1.6% to $38.40 in 2014 after falling by 1.7% in 2013. This recovery in the average price per bottle is an important indicator of the overall channel's strength".

**Figure One – Total Value and Average Price per Bottle of US DtC Shipments - Source, Ship Compliant.**

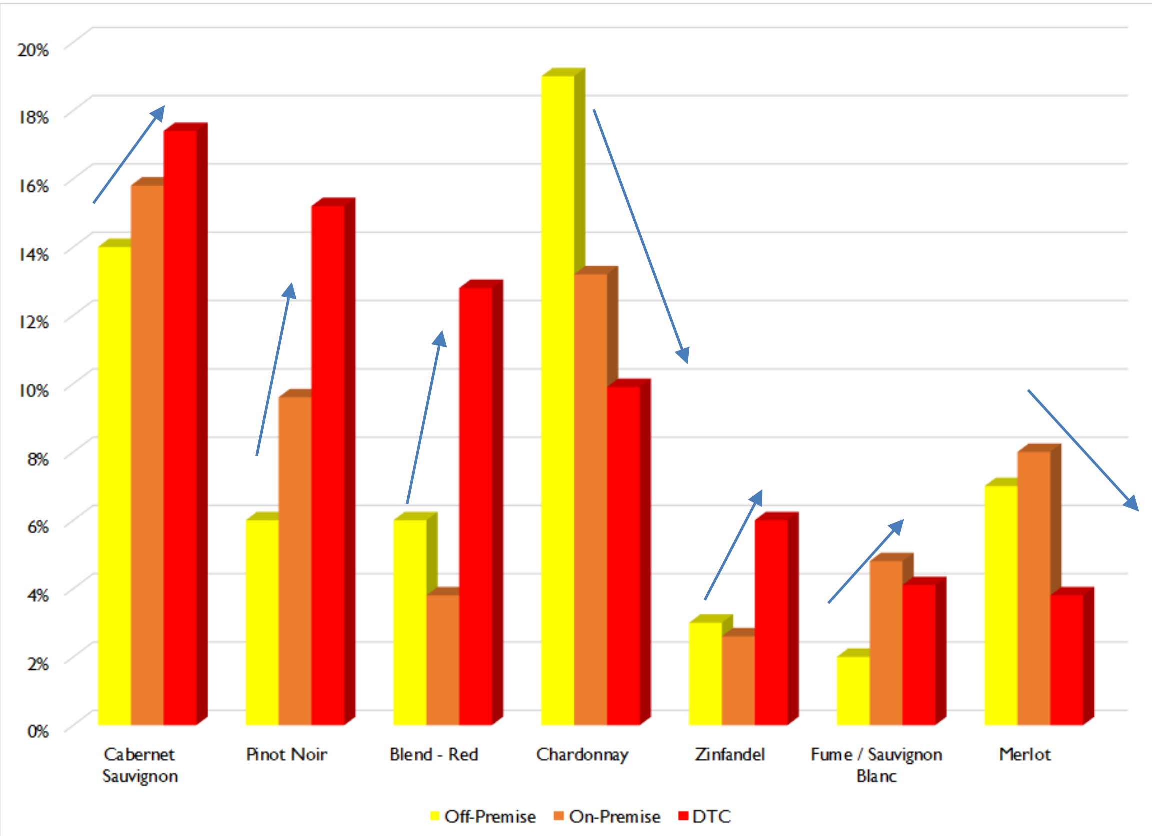



Ship Compliant's Jeff Carrol is saying that this is not yet a "hockey stick". Perhaps not but these are the best lead indicators I've seen in 30 years of watching this market. The key questions are – What's selling, how can we participate, what are the most effective strategies wine producing countries can employ to take advantage and how can we learn from US DtC best practise in order to improve our sales at home? I've just returned from the US after attending the DtC Symposium and visiting wineries in order to find out.

**Figure Two – DtC Shipments by Varietal – Volume, Value and Average Price - Source, Ship Compliant**

| Wine Style | Volume | Change | Value | Change | Ave Price |
|---|---|---|---|---|---|
| Cabernet Sauvignon | 17.4% | 16% | 30.1% | 20% | $ 66.32 |
| Pinot Noir | 15.2% | 22% | 17.9% | 33% | $ 45.28 |
| Blend - Red | 12.8% | 11% | 14.0% | 1% | $ 41.85 |
| Chardonnay | 9.9% | 6% | 8.0% | 11% | $ 30.86 |
| Zinfandel | 6.0% | 13% | 4.2% | 11% | $ 27.02 |
| Fume / Sauvignon Blanc | 4.1% | 2% | 2.2% | 0% | $ 21.08 |
| Merlot | 3.8% | 8% | 3.0% | 10% | $ 30.55 |
| Syrah / Shiraz | 3.7% | -3% | 3.3% | -1% | $ 34.25 |
| Sparkling | 3.0% | 23% | 2.1% | 16% | $ 27.63 |
| Blend - White | 2.2% | 22% | 1.1% | 14% | $ 18.41 |
| Rose | 1.6% | 22% | 0.8% | 12% | $ 18.90 |
| Pinot Gris / Grigio | 1.4% | 29% | 0.6% | 18% | $ 15.08 |
| Cabernet Franc | 1.3% | 14% | 1.3% | 24% | $ 39.01 |
| Petite Sirah | 1.3% | 8% | 0.9% | 3% | $ 27.14 |
| Riesling | 1.1% | 16% | 0.5% | 30% | $ 17.30 |
| Sangiovese | 0.8% | -17% | 0.5% | -10% | $ 26.94 |
| Moscato | 0.2% | 18% | 0.0% | 23% | $ 6.99 |
| Other Red | 4.9% | 16% | 3.0% | 10% | $ 23.15 |
| Other White | 2.8% | 15% | 1.4% | 9% | $ 19.32 |
| Other | 2.1% | 17% | 1.2% | 13% | $ 22.58 |
| Unspecified | 4.4% | 32% | 3.8% | 27% | $ 33.22 |
| TOTAL | 100.0% | 14% | 100.0% | 16% | $ 38.40 |

**Figure Three – DtC Shipments - Source, Ship Compliant vs On-Premise (Wine Metrics) vs Off-Premise – (IRI)**



In order to develop the best dashboard in terms of seeing where the US market is heading, what I've done is compared how each major wine style is performing in the Direct, On-premise and Off-Premise channels. My assumption is that DtC sales will lead to On-Premise listings and, much later on, Off-Premise sales. The relationships between these channels are complex and imperfect but we have been able to demonstrate through our [On-Premise research] and analysis of Off-Premise data that this in broad terms, is what happens.

So – What does this tell us? Cabernet, Napa Cabernet in particular, is the cornerstone. It's the rock upon which belief in the American fine wine category is founded. As its producers become more successful and profitable, their capacity to invest in better theatre and story-telling is enhanced.

I believe that the Cabernet category is good for at least another 10 years of growth because, even though the slings and arrows of the anti-Parker mob are starting to find their mark, there are enough producers of wonderful older style Cabernets and of new, more elegant styles that transition can be made whilst appealing to a broad audience.

At an average price per bottle of $A82 / $NZ88 / R750 it does make you wonder what producers in Coonawarra, Margaret River and Stellenbosch particularly have been dreaming about and why US importers haven't been more proactive. The quality available and returns possible at $US40 per bottle should have made the US market compelling for this small handful of regions outside Bordeaux, Tuscany and Napa, that can produce world class Cabernet. It's clearly not too late and focused investment in building direct business and On-Premise listings should yield great rewards for producers from those regions.

**Figure Four – Pinot Noir DtC Shipments vs Total Market - Source, Ship Compliant vs On-Premise**


It is Pinot Noir, however, that is the wine of the moment in the US market. You can expect that trend to continue as more women and younger drinkers come into the market. Pinot fits the bill as a sophisticated wine style that is easier to drink than most red wine. Once again, an average price of $A52 / $NZ55 / R520 gives New Zealand, Tasmanian and Hermanus producers plenty to aim at.

Red blends are perhaps the most exciting opportunity for Australian producers as high-end American wine drinkers get the amazing flavours and complexity possible through clever blending of 'interesting' varietals (being vines that find unique expression in their place of origin).

Chardonnay is a tougher one. As the market becomes more sophisticated, the American wine story has shifted from the winemaker to the terroir. Chardonnay, as the ultimate "Winemakers Wines", is one of the more difficult varietals through which to tell the terroir story. Only the Burgundians have genuinely succeeded so far. You can therefore see that although Chardonnay is a massive category in the US off-premise, wineries are finding it easier to add value through story telling via red wine.

Even Zinfandel, which is at the wrong end of the cycle in the commercial market, can readily find an appreciative audience when vine age is fully capitalised upon and a gentle hand applied to winemaking.

Fume / Sauvignon Blanc remains a large category, if not keeping pace with the overall market. This should excite Marlborough producers immensely. Not to put too fine a point on it, the local wines are typically somewhat less than fabulous. It's the same situation that New Zealand encountered in the Australian market, where Riesling and Semillon etc. were grown in unsuitable climates. People had been told to drink Napa Sauvignon / warm climate Australian white wine so they did, leaving them hugely susceptible to something that tastes better. Australia lost 40% of its white wine market. Napa Sauvignon specialists should be worried.

The issue for New Zealand is that so far, they have been seeking to grow their market upside down. Off-Premise has been the primary focus. Their importers told them what the price had to be without insight into what the consumer was actually prepared to pay.

The consequence of that is that in Safeway today, you can see Cloudy Bay at $24, Dog Point at $14 and Villa Maria at $9. The entire category is $5+ a bottle off both the global price average and what the market is prepared to pay for inferior local product. In order to turn this around, New Zealand needs to come up with an effective Direct to Consumer strategy and use this to help seed the On-Premise.

Shiraz has been nose diving for years in the US taking the Australian category with it. If you look at Australia in retail today, the only brand you will see with certainty is [yellow tail] and perhaps the Mollydooker. The listed company's products are no longer in national distribution and the category they must win in (i.e. sub $9) is dying. I can see nothing but trouble still for those businesses. The three lead US companies – Gallo, Constellation and the Wine Company – pretty much have it wrapped up.

What can Australia do? The big opportunity I see is with cooler climate Shiraz and Shiraz blends, particularly those involving Grenache. Here Australia can produce world class wine that cover a flavour profile that is currently a missing component in the Northern Californian wine offer. Indeed it was absent from the Australian offer for a very long time before imported wine pointed winemakers to it.

Spicy, more elegant and food friendly wines with an Australian stamp on them must meet with a willing audience. This is where the Argentinians are aiming now but they have been trying to do it all with one varietal. This is changing so Australia will have to be quick.

Australia has one massive advantage over South America in a superior ability to connect with consumers socially, both online and in person. In order to compete with US wineries however, Australia will need to invest heavily in its own precisely targeted, on ground direct to customer strategy.

What else can Australia do? White Blends offer the same world of possibility that red blends do. Like the Australian market, however, the US is in the very early stages of realising the potential of sophisticated white blends. It will happen as people get to understand this concept through red wine. This, of course, will also create opportunity for South Africa. There is an opportunity for Chenin but convincing a raft of quality producers to only sell their best wines and do so at above $20 retail is the absolute key.

What else is there? Rose and Pinot Gris look interesting until you look at price. This didn't deter Provencale winemakers who have been wildly successful at high price point with their unique Rose style. They show us all the value of good marketing - product and packaging innovation especially.

Cabernet Franc is a surprise winner. Very few regions outside France have had any luck with it. Many fine examples exist in California. Petit Syrah (Durif) is another story. Australia does this maybe too well and this definitely is not the style to go wading back into the US market with now.

Moscato provides a good barometer of just how sophisticated the direct market is and what a different segment of people its fans are. Despite the massive success for Gallo etc. in retail, Moscato is nothing to the booming tasting room businesses of Northern California.

And what for Riesling? Despite the "Summer of Riesling" and all the hype that went with it, there it is, lost and lonely. I wouldn't let that deter you too much. Aromatic wines are a huge hole in the American wine offer generally and any region that has something genuinely unique can readily excite this market. Just ask the Austrians.

As to the state of the art in terms of Direct to Customer marketing, the move to mobile and the best things you can be doing to improve direct sales, that's all part of our 2015 workshop program. We'll announce the schedule shortly. This year we will be focusing not only on what to do but on providing you with a world class network of people who can get it done for you, something my US colleagues have done extremely well. We'll also have a big focus on selecting, pitching to and managing importers / distributors.

What struck me most during my visit was the management of the experience at cellar door. This is where a trip to California will more than pay for itself. The US is miles in front on that score.

A concept we spoke about a lot in last year's workshop was that of 'concierge'. That has now been widely adopted. Everyone entering any significant property is greeted on arrival, briefed on what to expect and directed accordingly. This adds huge value. The other big change has been overcoming the dilemma of choice. Few tastings are more than 5 wines and many are only 4. This leads to more confident choices and better sales. And they charge. Boy do they... $20 is about average, $30 not unheard of. There are many different policies but my favourite is "no charge and 30% off, for trade". Makes visiting even more attractive.

You'll never be disappointed if you do have to pay for tasting, such is the quality of the presenters. What I really love is that everyone is a potential customer. US tasting room managers have a strategy for everyone. They know how to cut the leader of a bachelorette party out of the herd and get all her girlfriends to buy.

So often when I or my clients have an idea, we're thinking to ourselves that it can't be a great one because we had it. You really have to see things, sometimes, to believe them. It's therefore exciting to see that so many of the concepts that we talk about in our workshops last year have been implemented by US wineries.

Look at the way in which Constellation have used images of the Mondavis seemingly to invite you to their table (see following page). We talked about projecting those images up onto your walls but here we see that you don't even need one. We also talked about using soil samples and video on LCD screens to tell your story and sell your brand before customers even start tasting. See how St Supery have done that.

We talked a lot about how organising your theatre determines how people behave and how much they spend. Check out the 'checkout' sign at Sattui on page 10. We also discussed how a wine business's most valuable space is often the land around the winery. See how Kunde leverage that idea on their mountain top. Time to clean up those picking bins and talk to the council about that car cemetery yonder, perhaps??


ST SUPÉRY


PLEASE FORM
LINES AT EACH
OPEN REGISTER


MOUNTAIN TOP TASTING
Wine Tasting at 1400 ft.
Daily
11:30, 12:30, 1:30, 2:30 & 3:30


Welch


RESERVED

As to Clubs and Club membership, how about creating a club area that anyone would want to have access to? You might not have to spend as much money as the Ramsgate winery (pictured on the previous page) to succeed in your region. There is much to be said for creating an environment where people would want to pay a premium just to hang out in.

Similarly, every one said that “you must go to Artesa”, Codorniu’s showcase in Napa. Its main feature is, at the end of the day, a shallow pool with rectangular things in it. Sometimes art is more about simplicity than money. See also how Ch. Montelena have transformed their simple pond into something timelessly beautiful with a pagoda (see page 15). Conde Stark (South Africa) have done the same thing. I cannot, conversely, see Rob Hay (Rabbit Ranch) investing in a giant bunny as found at Hall Wines, Napa Valley style...

The best trick of Northern Californian tasting rooms is professional merchandising. This absolutely, is worth investing in. See how it lifts the wine and sells the whole idea of how much fun you can have? (Page 14).

What is it that makes Californian tasting room experiences the best in the world? I would say their impossible charm and work ethic, the former being very much the product of the later. We can all learn from that…


Soirée
CHEF'S COMBO
EXPRESSIVE OAKVILLE
CABERNET AND CHOCOLATE
SWEET SEDUCTION
ROBERT MONDAVI WINERY
Oakville
Chocolate
WINE


MASTER TIPS, TECHNIQUES, and RECIPES for SWEET BAKING
Sugar RUSH
JOHNNY IUZZINI with WES MARTIN
BACON NATION
PANINI
ROBERT MONDAVI WINERY
Napa Valley
BAMBOO SALT & STORAGE BOX
LA BELLA TERRE
salty sweets
christie matheson

# 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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