Wine Business Solutions

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The Winds of Change

Change is constant. Or is it? That would imply that change happens at a steady, predictable rate. But it doesn't. Sometimes it's like an avalanche. You watch something moving glacially over a long period and then suddenly, there is a paradigm shift.

I believe we're seeing that happen right now as the next generation of sommeliers, distributors and winemakers breaks through. What an Australian consumer sees on a wine list today, for example, is totally different to what they saw only a year or so ago. Restaurateurs and their customers have gotten it into their heads that they can have absolutely anything, from anywhere. And they can.

The large national distributor companies have, by and large, not been able to keep up with the pace of change with most losing significant market share. In their place has come a whole raft of smaller, more nimble competitors who are often using alternative paths to market, making them harder to compete with.

We've been observing the Australian On-Premise for seven years now. After being fairly stable at around the 2000 mark during that time, the number of brands in our annual survey shot up by 75% in just the last 12 months. Listings of imported wines have lifted from a quarter to a third of all listings. At the same time, New Zealand is going backwards even faster than the Australian wine producing States. So it is all about Europe with Spain and Italy being the biggest winners, just as they are in many markets around the world.

The GFC forced Italy and Spain to be more competitive and it is not about price. Rioja's system of quality control, for example, has been a real winning formula in terms of consistently delivering perfectly matured, medium weight, food friendly wines to the dinner table, something New World producer countries currently don't have the capacity to control collectively.

At the same time, the WET rebate has discouraged Australian winemakers from exporting which also reduces the amount of travel fine-wine makers, in particular, undertake. This fact, the comparatively buoyant Australian economy and direct to customer sales growth has partially blinded Australian producers to the real threat. Now, they are not only facing much tougher competition as they look to re-engage with international markets, that competition has come home to roost in the domestic market as well.

Many have been saying to me that the weakening Australian dollar should sort that out. That misses three imported points. Firstly, the Euro is finding a different path to the $US. Secondly, Australian restaurants are proving to be highly resourceful in terms of discovering value in the lesser-known regions of Spain and Italy particularly, in exactly the same way that their UK counterparts have.

Thirdly, now that Australian diners have a taste for the variety and food compatibility of European wine, they are not going to be easily weaned off. Australian producers are going to have to respond with something, at least, as interesting and compelling.

Figure 1 – Percentage Share of Wine Listings for States and Countries in Australia

Source	2015	2014	Change
SA	26.0%	32.8%	-21%
VIC	14.7%	15.9%	-7%
France	10.5%	8.9%	19%
WA	9.4%	12.9%	-27%
NZ	8.1%	11.4%	-29%
Italy	8.0%	2.9%	181%
NSW ACT	7.8%	7.4%	6%
TAS	3.7%	4.6%	-20%
Spain	3.1%	1.3%	136%
Other IMP	3.1%	1.6%	93%
QLD	0.1%	0.3%	-64%

In order to understand why New Zealand (Sauvignon Blanc), Western Australia (Chardonnay) South Australia (Riesling) and Tasmania (all three) and losing so much share, just have a look at what's happening to white wine listings. It's not 'anything but Chardonnay' but 'anything but what we know already'…

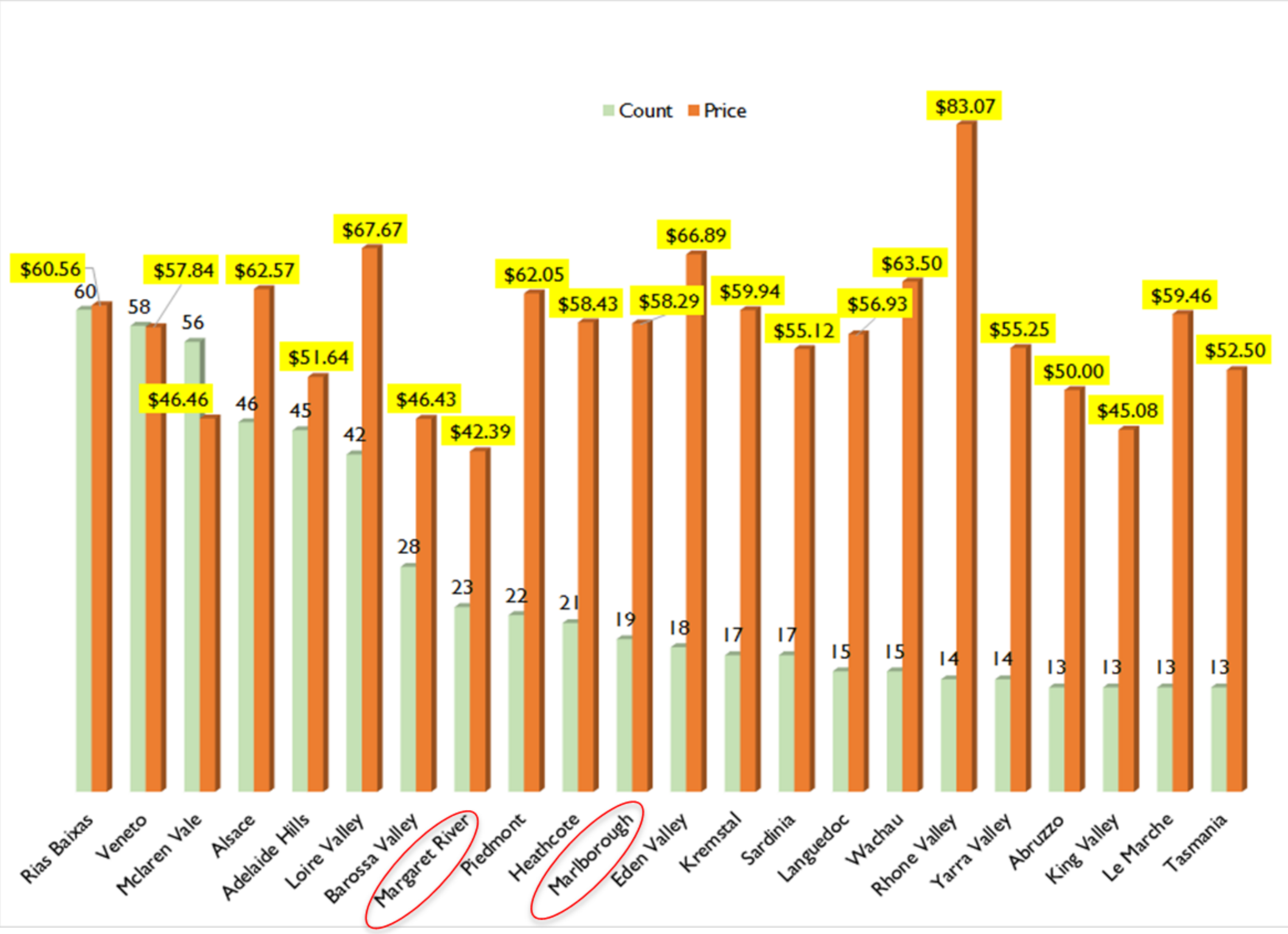
Figure 2 – Change of Share of Total White Wine Listings by Varietal

Style	2015	2014	CHG
Sauv Blanc	20.1%	23.8%	-15%
Chardonnay	18.4%	22.7%	-19%
Pinot Gris/Grigio	15.9%	14.2%	13%
Riesling	13.1%	15.6%	-16%
SSB / SBS	7.6%	8.3%	-8%
Semillon	3.0%	2.6%	13%
White Blends	2.9%	1.5%	93%
Verdelho	2.6%	2.4%	7%
Chenin Blanc	1.9%	1.6%	18%
Gewurztraminer	1.6%	0.8%	111%
Vermentino	1.5%	0.6%	166%
Viognier	1.3%	0.9%	47%
Albarino	1.2%	0.3%	305%
Gruner Veltliner	1.1%	0.4%	147%
Soave	1.0%	0.4%	152%
Fiano	0.8%	0.5%	70%
Arneis	0.7%	0.3%	104%
Pinot Blanc	0.6%	0.4%	44%
Marsanne	0.5%	0.2%	84%
Verdicchio	0.4%	0.0%	1109%
Roussanne	0.3%	0.2%	90%
Picpoul de Pinet	0.2%	0.0%	418%
Others	3.2%	2.2%	47%

I've been saying for some time that I feel that if Australia is to recover its position where white wine is concerned, it is about making white blends with more complexity, more layers and more nuance than single varietals can generally deliver. Certainly that now seems to be the thinking of a section of winemakers. White blend listings have doubled during the last year.

As is so often the case, it is not the market leaders that are leading innovation and it is they that are suffering most. South Australian regions are way out in front of Margaret River and Marlborough when it comes to listings of white wine styles that are not Chardonnay, Sauvignon Blanc, Pinot Gris, Riesling or Sauvignon Blanc / Semillon blends.

Figure 3 – Number of Alternative White Varietal By-The-Bottle Listings and Ave. Price by Region



You can see a common thread through the styles of white wines that are winning. Rias Bias (Albarino), the Veneto (modern style Soave) and Kremstal / Wachau (Austrian Gruner Veltliner) all share properties of mouth feel, structure and good natural acidity that tends to make them work better with food.

Australian producers are looking to Italian varietals, primarily, to produce the same outcomes.

Figure 4 – Share of Red Wine Listings by Leading Varietal

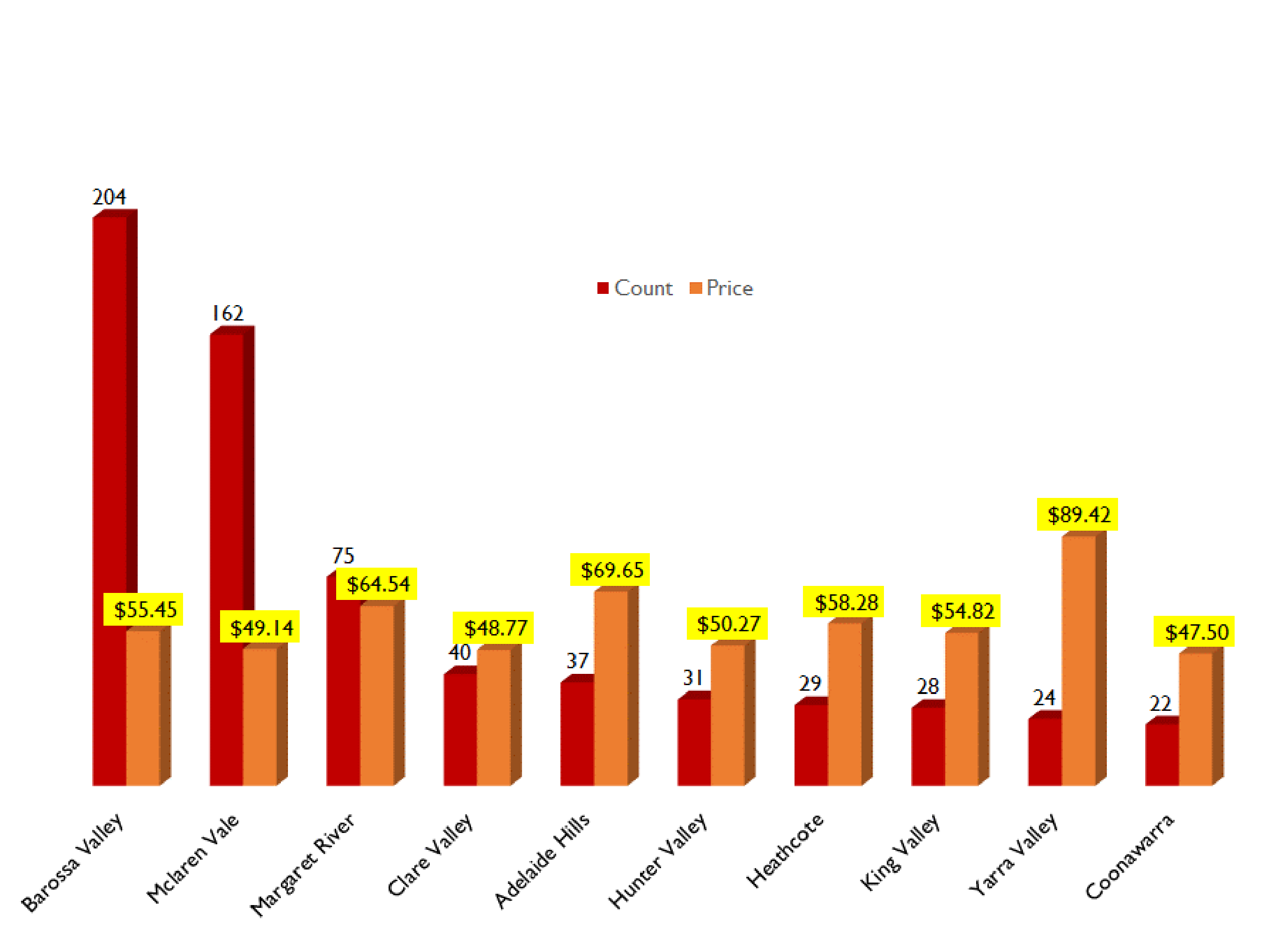
Style	2015	2014	CHG
Shiraz	19.7%	25.0%	-21%
Pinot Noir	16.2%	18.3%	-11%
Cab Sauv	12.2%	15.6%	-22%
Merlot & Blends	7.6%	7.3%	3%
Cab Merlot	6.2%	7.5%	-17%
Sangiovese & Blend	5.6%	3.0%	89%
Tempranillo & Blends	4.9%	2.4%	101%
Grenache Blends	4.3%	3.9%	11%
Shiraz Blends	3.9%	3.0%	27%
Cab Blends	2.9%	1.6%	81%
Malbec	2.5%	1.2%	115%
Others	2.5%	3.6%	-29%
Red Blends	2.3%	2.9%	-22%
Nebbiolo	1.3%	0.7%	90%
Rhone Blends	1.3%	1.1%	22%
Gamay	1.1%	0.4%	164%
Barbera	1.0%	0.4%	146%
Nero d'Avola	0.8%	0.2%	278%
Bordeaux Blends	0.8%	0.4%	73%
Cab Franc	0.6%	0.0%	1206%
Zinfandel	0.5%	0.4%	29%
Mourvedre	0.5%	0.4%	20%
Primitivo	0.4%	0.1%	538%
Valpolicella	0.3%	0.3%	9%
Mencia	0.3%	0.1%	424%
Carmenere	0.3%	0.1%	246%

The same thing is happening with red wine styles. Even Pinot Noir has slowed down after years of solid growth. Sangiovese and Tempranillo, on the other hand, are close to becoming mainstream styles based on share of listings.

This is quite an extraordinary turnaround when you consider that only ten years ago, South Australian winemakers had little concept of these wine styles.

Now, as you can see in the chart on the following page, South Australia is the leading producer of alternative red varietals (even if warmer regions may not necessarily be the best places to grow varietals like Tempranillo and Sangiovese).

Figure 5 – Number of Alternative Red Varietal By-The-Bottle Listings and Average Price by Region



Note – Excludes Cab. Sauv., Shiraz, Pinot Noir and Cab. Merlot

Figure 6 – Change in Share of Chardonnay By-The-Bottle Listings for Leading Regions

Region	2015	2014	Change
Margaret River	11.1%	15.8%	-29%
Yarra Valley	10.8%	8.3%	31%
Hunter Valley	6.3%	5.2%	21%
SEA	5.8%	6.3%	-7%
Chablis	5.6%	4.7%	19%
Adelaide Hills	5.3%	7.8%	-32%
Mornington Peninsula	5.3%	6.3%	-16%
Mclaren Vale	4.7%	4.9%	-3%
Tasmania	3.6%	3.1%	17%
Burgundy	3.5%	3.1%	12%
Eden Valley	2.2%	2.5%	-11%
Geelong	1.7%	3.1%	-46%
Marlborough	1.7%	1.7%	-2%
Orange	1.5%	1.9%	-19%

So how should wineries respond to this information? Firstly, it is not necessarily about charging out and planting just any new varietals. As producers' experiences become public, better insights as to what to plant where will emerge.

It might also be primarily a style thing. As in the chart on the preceding page, Chardonnay may be declining but as the Yarra people have been more progressive in their thinking, they've grown share faster than the category is shrinking. The same cannot be said for Margaret River.

This is also what Marlborough now has to consider. Whilst the answer may not be to become Sancerre exactly, producers will need to think about how they make more nuanced, subtle, structured, food friendly styles of Sauvignon or risk losing the Australian, UK and other markets that have become suddenly more sophisticated with the emergence of the "Masterchef Generation".

It is also about embracing new winemaking techniques. Put an 'egg' or two in the winery and see what happens. Give natural winemaking and extended ferments a go. Whilst there are elements of the 'orange' wine movement where the proverbial emperor will shortly be found to be well and truly 'in the nude', there are all sorts of wonderful new textures and flavours resultant of these processes that can add interest in the hands of good winemakers. Try Cullen's Amber as an example.

It's not about fashion either. It's about trying things so as to make ever more interesting wine. It's about evolution but also about sustainability.

It may also be worth considering innovating your path to market. One national distributor recently told a client that they wanted 43% margin. That is neither normal in any other market in the world, nor at all sustainable. When you are getting those types of messages, maybe it's time to start working with a distributor who has a portfolio of wines that the emerging wine reseller actually wants.

Caution should be exercised, however, as the market simply cannot sustain the number of people who, with little more than a Facebook page or a Linkedin profile are now suddenly wine suppliers to the Hipster set.

It is not, however, all one way traffic. Somewhat counter intuitively, there has never been a better time to be a very traditional brand. Tyrrells is the most listed brand in NSW, De Bortoli, the most listed in Victoria and Cullen, the 2nd most listed in WA. Whilst Cullen is also one of the most innovative producers in WA, the brand's heritage is working hard for it as well. This reflects global trends where brands with great, perceived authenticity and heritage are finding a strong following amongst emerging consumers.

One needs to be extremely careful with how this information gets interpreted, of course. Quoting Anthony Hopkins in the film Fracture – "Even a broken clock is right twice a day". The future is never some reimagined version of the past. It is only ever the present impacted by major events and global trends.

So if wine is evolving in a way that is in large part predictable as a result of the audience becoming more sophisticated – where to next? My theory is that the next logical step is in the direction of wine as art. That is to say, wine as a stimulating exercise of intellect where the packaging, the story and the wine itself take the drinker on a journey.

Take Californian producer, Orion Swift, for example. Their stunningly different packaging is thought provoking, to put it mildly, and their wines commensurately interesting. This is not something lifted from the paid advertorial packaging section of a wine business magazine. These guys have had real success.

As the authors of the idea for one of the first commercially successful high-end red blends in the US – The Prisoner - Orin Swift were able to sell that single SKU (and associated bit and pieces) for $US42 Million. They trade on with the range above and others that can be found in most good wine shops in America.

How have Orin Swift been able to do this? They have transcended wine as gastronomy / image device / collectable and moved it into the realm of art. Not art as Mouton Rothschild or Leeuwin Estate use it (image building by association) but art as an enjoyable, intellectual experience of itself. I guess we'll see. The next generation of winemakers are certainly big into wine for itself. Cheers to that.

We've just completed our first round of workshops in WA and Stellenbosch. Both were sold out and great successes, judging by the feedback. As I've moved around I'm continually running into Sarah / Paul / Lizelle etc. who have just been appointed as the company's 'Direct to Customer person'.

When I ask them what they are to do, they generally respond that their job is to write four newsletters per year, do some social media and perhaps organise an event.

Wrong, wrong and wrong. This will not get you the result that you seek. This person will fail causing them unnecessary damage to their self-esteem and everyone concerned will feel worse off for the experience.

The Harvard Business Review recently carried a cover story stating that the most important person in a company today is the Chief Marketing Technologist. This person really ought to be part of your senior management bench, or just one rung below, in terms of their ability and responsibility.

Because this is hard, intellectually challenging work. Those of you who have been doing it yourself know it.

'Doing' Direct to Customer today to the level of the 20% of US wine businesses who are responsible for 88% of sales requires vigorously going about establishing a large database of engaged customers. It is about creating highly personalised, timely and relevant communications. It is about conversations not campaigns. Above all, it is about giving people content that they need, not bombarding them with stuff they don't.

This takes skill, creativity and a lot of hard work. It's not about bribing people to be your friend but about giving them reasons to believe that yours is a brand that they need – being the answer to an important question, if you will.

What worries me most about the 'job description' above is that this is all one step away from the customer. At the heart of all good direct to customer strategy is deep engagement with those customers. I recently met with the matriarch of a family wine business who told me that she has never stood at the cold face of their cellar door talking to customers. Direct to Customer managers who work in the way mentioned above are similarly disadvantaged.

As a Sales Manager of one of the most successful WA brands recently reminded me – despite the colossal amount of stuff that goes on in the lead up, nothing actually happens until a sales person stands in front of a customer. Even in these times of much enhanced technology, this remains the fundamental truth.

One of the scariest things about giving advice is that sometimes people actually take it. When a client places a large monetary bet based upon your intuition in relation to something that has never been tried before, it's nerve wracking for all parties.

We've been trying to get our clients to do away with their loss making / breakeven at best restaurants and evolve their tastings into fully immersed wine and food experiences. All the signs were there that this must work because every time we've seen anyone take a step in this direction, their sales have improved.

Still, a number of our clients, whilst being prepared to make major changes to their restaurant and tasting room layout, have not been prepared to do away with their restaurant altogether.

Imagine my trepidation when I walked into a client's cellar door recently to see that they had removed their restaurant place settings altogether and carpeted all undercover available space with a sea of wine glasses.

I asked them how this was working out for them. If they had had any doubts at all, I would have been very concerned. Instead, they proudly reported that their wines sales were up 60% off a pretty decent base. Those sales, of course, come with a 65% plus margin.

Now, as with all things of this nature, there are significant caveats, hence the 'flashing green light'. You first must have the traffic. Hosting a Sunday market drawing hundreds, sometimes thousands of people to this property every weekend is a good start. Some South African winery restaurants also produce good profits for their owners, unlike Australian versions. Regardless, the amount in time and resource diverted from the job of building your wine brand alone swings the decision in favour of structured tastings, in my book.

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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