

Wine Business Solutions



The Wine Paper

Issue Four – September 2008

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Can Wine Business Failure be Predicted?

Business failure can be devastating. As well as ruining wine business owners financially, it affects their lives, their relationships and their hopes for the future.

As many of you will know, I run the education program for the TMA (Turnaround Management Association) which is a network of professionals dedicated to helping troubled businesses. One of the main case studies we've used during the last three years of running TMA workshops across Australia is Evans and Tate.

Through these programs, Partners and Directors of some of Australia's largest accounting, legal, finance and insolvency practices have had the opportunity to turn their minds to the dilemma that Evans and Tate faced in July 2005 (when the extent of their problems was first becoming public) and to make their contribution to understanding what went wrong and how it could have been prevented.

The TMA recently hosted Dr Ed. Altman who is Professor of Finance at the Stern School of Business, New York University - one of the most renowned and best resourced capital markets research centres in the world. Ed's area of specialisation, macabre as it may sound, is predicting business failure rates.

He is most famous for something called the "Altman Z Score". It measures the operating health of a business using some easily understood measures.

Altman's Z-score:

$$Z = 1.2x1 + 1.4 x2 + 3.3 x 3 + 0.6 x 4 + 1.0 x 5$$

Where

- x 1 = Working Capital/ Total Assets
- x 2 = Retained Earnings/ Total Assets
- x 3 = EBIT/ Total Assets
- x 4 = Market Value of Equity/ Total Liabilities
- x 5 = Sales/ Total Assets

<1.81 = failing; >2.99 = healthy

*** 95% accurate 1 year out, 72% 2 years out**

Now for those of you tuning out right now thinking that you'd left those horrible formulas on a blackboard somewhere in the dim dark past, the basic principle here is very easy to understand.

If a business doesn't have enough Working Capital (Current Assets minus Current Liabilities), Retained Earnings, Sales and Profit relative to the total amount of Assets it owns and if it has too much Debt – it's in a lot of trouble...

So if Altman's Z score is 95% accurate one year - what was Evan's and Tate's position as at June 2004?

Figure 1. Altman Z Score Calculation ex June 2004 accounts Note – Figures in \$000

Financial Information		Z Score Calculation			
Current Assets	\$ 83,622	X1	0.14	1.2	0.17
Non Current Assets	\$ 131,786	X2	0.06	1.4	0.09
Total Assets	\$ 215,408	X3	0.06	3.3	0.21
Current Liabilities	\$ 53,789	X4	0.44	0.6	0.26
Non-Current Liabilities	\$ 85,092	X5	0.47	1	0.47
Total Liabilities	\$ 138,881				1.20
Retained Earnings	\$ 13,445				
Other Equity	\$ 63,082				
Total Equity	\$ 76,527				
Market Value of Equity	\$ 60,950				
Sales	\$ 101,643				
EBIT	\$ 13,989				
Working Capital	\$ 29,833				

X1 =	Working Capital/ Total Assets
X2 =	Retained Earnings/ Total Assets
X3 =	EBIT/ Total Assets
X4 =	Market Value of Equity/ Total Liabilities
X5 =	Sales / Total Assets
Z = 1.2xX1+1.4xX2+3.3xX3+0.6xX4+1.0xX5	

After doing a simple calculation that any first year economic student could do on the back of an envelop, it is clear the Evans and Tate was in high imminent danger of failure.

And that's working off their reported financial situation which, as we later discovered, significantly understated the real depth of their problems.

Just to give you an idea how deep the trouble was, here is the Altman's Z Score's bond rating equivalents.

Figure 2 - Z Score bond rating equivalents

Z"-Score				Rating		Z"-Score				Rating	
Safe Zone	{	> 8.15		AAA		5.65 – 5.85		BBB-		} Grey Zone	
		7.60 – 8.15		AA+		5.25 – 5.65		BB+			
		7.30 – 7.60		AA		4.95 – 5.25		BB			
		7.00 – 7.30		AA-		4.75 – 4.95		BB-			
		6.85 – 7.00		A+		4.50 – 4.75		B+		} Distressed Zone	
		6.65 – 6.85		A		4.15 – 4.50		B			
		6.40 – 6.65		A-		3.75 – 4.15		B-			
		6.25 – 6.40		BBB+		3.20 – 3.75		CCC+			
		5.85 – 6.25		BBB		2.50 – 3.20		CCC			
				1.75 – 2.50		CCC-					
				< 1.75		D					

So a 1.20 rating is pretty much the bottom of the bucket...

Why then, do you think, did these newspaper headlines go unchallenged?

"Evans and Tate dispels any whiff of grape glut" – Sydney Morning Herald 4-5-05

"Evans and Tate fights gloomy outlook for wine" – Australian Financial Review 20-5-05

"Evans and Tate not over a barrel yet" – the Advertiser 22-6-05

Then inevitably-

"Evans and Tate dumps chief to secure \$10 million lifeline" – 16-7-05

And -

"Whilst management had forecast \$16Million in earning for FY05 and \$3Million of FY06, the results were losses of \$73 Million and \$64 Million respectively." Martin Jones, Ferrier Hodgson –the Age 10-10-07

Evans and Tate's problems started a long time before June 2004 of course and the indicators of those problems were a lot more familiar and easy to understand for wine business owners than fancy Z scores.

It's easy to forget that as recently as the year 2000, Evans and Tate were operating a 135,000 case business with an average per case sale price of \$144 and a 49% gross margin. It was the leading brand at the centre of a great regional brand – Margaret River.

It was, without a shadow of a doubt, the best small to medium wine company in Australia. Five years later, it was trying to sell 1.5 Million cases of wine at an average price of \$58 giving them a 32% margin.

Year	Revenue Per Case	COGS Per Case	Interest Per Case	Gross Margin Less Finance Costs Per Case	Inventory Days
2000	\$144	\$73	\$5.82	\$65.18	486
2001	\$99	\$53	\$3.67	\$42.33	577
2002	\$96	\$51	\$4.73	\$40.27	602
2003	\$70	\$43	\$4.04	\$22.96	687
2004	\$61	\$35	\$5.34	\$20.66	698
2005	\$58	\$40	\$5.53	\$12.47	657

Figure 3 Year on Year financial analysis of E & T Published accounts

Source – “A Forensic Analysis of Failed Continuous Disclosure in Action” Tyrone Carlin, Macquarie Graduate School of Management

It would be easy to say that Evans and Tate's principal problems were;

- paying too much for assets,
- buying into a business that they didn't understand being high volume, warm climate produced supermarket wines,
- growing too fast and using debt to fund that growth
- placing too much power in one person making Franklin Tate both Chairman and CEO and
- not having the appropriate financial management and governance in place for a large public listed company.

That wouldn't leave us any the wiser as to the root cause, however. And there's no point in a firm like WBS taking on a consulting assignment or business turnaround project unless the solution addresses the underlying cause of the problems.

On one hand, you could say that Franklin Tate was a victim of the “Icarus Paradox”. In Greek mythology, the power of Icarus' wings gave rise to the abandon that ultimately doomed him. The paradox, of course, is that his greatest asset led to his demise. In other words, it was Frank's entrepreneurial zeal that drove him to create the fastest growing wine company in Australian history and it was that same drive that wouldn't yield when the warning lights came on. Put in the very much more direct language of one consultant to Evans and Tate who was somewhat less concerned with client confidentiality than WBS is – “Franklin, you're flying your aeroplane into a brick wall !!”



On the other, here is an extract from an email doing the rounds of the investment bank analyst community –

“It appears that the company which E&T purchased in 2003 – Cranswick, had itself been created as a result of a string of acquisitions, including the 1999 purchase of Australian Premium Wines. My (the author’s) information indicates that ANZ had been a creditor to Australian Premium Wines – and that at the time Cranswick purchased it – it was underperforming. ANZ ended up a substantial creditor to Cranswick – (and also to E&T) – and was a key advisor to E&T in relation to its merger with Cranswick. ANZ also advised E&T in relation to its 1999 IPO, its 1999 takeover of Selwyn and its 2001 takeover of Oakridge...

You could be forgiven for thinking that ANZ may have pushed E&T into a series of transactions which were not terribly well advised either strategically or financially, and the chain of acquisitions connecting APW to E&T may well suggest a “roll up” strategy on the part of a primary creditor concerned that leaving debts as the responsibility of weakened entities might require aggressive loan loss provisioning – something which could be avoided if the debts were effectively shifted up the food chain to larger and larger entities (with a nice fee stream / lending stream) being generated along the way.”

Possibly a little too cynical but there were definitely at least two sides to this story. Who’s to blame ultimately? We’ll let you be the judge. One thing is for sure, with Palandri’s investors set to lose \$160 Million, Evans and Tate’s having lost a similar amount and Xanadu biting the dust, it will be a while before ordinary investors look to invest in listed WA wine companies...

Hardys and Foster - Going Cheap ?

Staying with our mythological theme and looking now at the upside of corporate renewal, will there be a “phoenix emerge from the ashes” of the once great assets of Leasingham, Goundry etc and the company we know today as Fosters Wine Group?

Figure 4. FGL's wine business footprint

	Key brands	Owned vineyards (hectares)	Wineries	Major packing plants
Australia	Penfolds, Wolf Blass, Lindemans, Rosemount	11,000	11	2*
US	Beinger, Chateau St Jean	1,900	7	1#
New Zealand	Matua Valley	200	1	0
Italy	Castello di Gabbiano	100	1	0
Group		13,200	20	3

*major packaging facilities at Wolf Blass and Karadoc

#Napa Bottling Centre and excludes mobile packaging facilities

Source: Citi Investment Research

Long established family businesses in particular know that the best time to buy winery assets is at that bottom of the cycle. The best of them have a history of picking up distressed assets at good prices. Of course, as this becomes common knowledge, it gets harder to beat competitors and truly get a bargain.

Figure 5. Potential suitors for FGL's wine assets

	Whole wine business			Specific brands or assets		
	Likely interest	Possible interest	No interest	Likely interest	Possible interest	No interest
Constellation		✓		✓		
The Wine Group			✓	✓		
Gallo			✓	✓		
Diageo		✓				
Pernod Ricard			✓		✓	
Other major global wine players - Distell, Bacardi, Vina Concha y Toro, Castel			✓		✓	
Private Equity		✓		✓		

Source: Citi Investment Research

As per figure 5 above, the investment community does not see strong interest from the big players.

WBS does not necessarily agree with Citigroup's assessment that there would be no interest from Distell and other similar companies in buying the whole business. Distell is, after all, part owned by SAB Miller the world's largest brewer and therefore, a logical acquirer of the Fosters beer assets. Distell, over the last 3-4 years, have been one of the best performing global Top 10 companies and will take considerable confidence from that.

How much will the acquirer have to pay for Fosters assets? Citigroup suggest that a significant discount should be applied given the cross subsidisation of wine from the beer division, the impact of the supply situation on the prices Fosters brands are capable of realising and the brand health (or lack thereof) of some of the core brands particularly Rosemount. We can't argue with any of that although latest Nielsen data does show Rosemount making a bit of a comeback in Australia at least.

According to the International Wine and Spirit Record, Fosters case sales volume has dropped by 9% during the two years to December 07. Annual earnings to June '08 held ground but net revenue was down 8%.

Figure 6. Historical wine industry M&A multiples

Date	Target	Bidder	Enterprise Value	EV/EBITDA trailing (x)	EV/EBITDA forward (x)
Feb-01	Rosemount	Southcorp	A\$1.5bn	16.4	12.2
Jul-01	Montana	Allied Domecq	NZ\$1.0bn	21.4	12.2
Oct-01	Beringer	Fosters	A\$2.9bn	14.0	12.0
Oct-01	Petaluma	Lion Nathan	A\$230m	17.3	
Jun-02	Simeon Wines	McGuigan	A\$330m	8.5	
Oct-03	Peter Lehmann	Hess Group	A\$150m	19.5	
Nov-04	BRL Hardy	Constellation	US\$1.4bn	14.3	12.3
Nov-04	Robert Mondavi	Constellation	US\$1.4bn	15.6	15.2
Dec-04	Chalone	Diageo	US\$260m	17.1	
Jan-05	Southcorp	Fosters	A\$3.6bn	15.8	15.2
Apr-06	Vincor	Constellation	C\$1.5bn		13.1
Mean average				16.0	13.2
Range					12-15

Source: Citigroup Investment Research

Even a range of 9.6 to 12 times forward EBITDA makes the whole business worth \$4.3-5.3 Billion.

Figure 7. Bid valuation for whole of FGL's wine business (A\$m)

	EBITS	DA	EBITDAS	EV/EBITDA (x)	Valuation
Upper end of range				12.0	5,339
Base case	361	84	445	10.8	4,806
Lower end of range				9.6	4,272

Source: Citi Investment Research

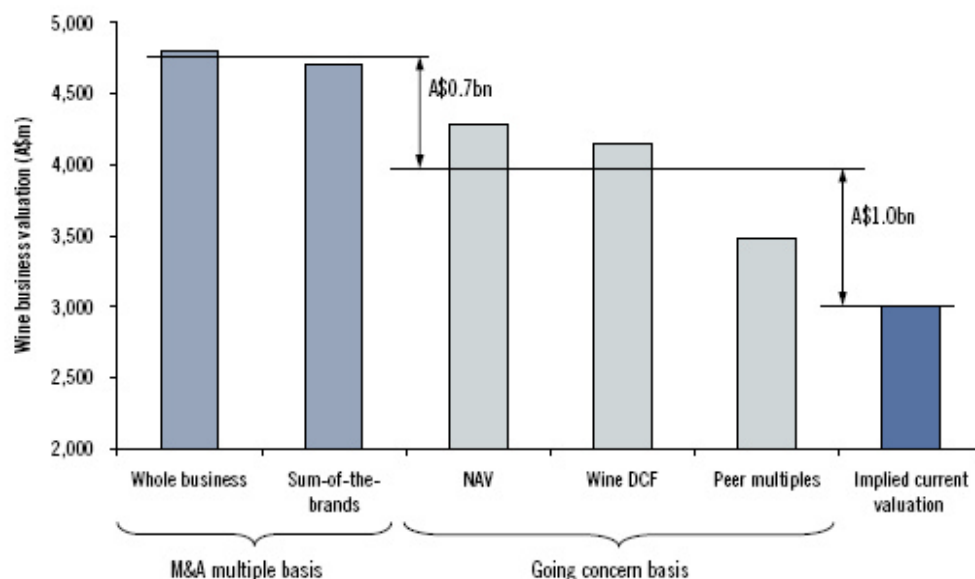
What is interesting is that this figure is not so much more than the book value of assets.

Figure 8 Estimated value of Fosters wine assets. Source Citi Investment research

Item	Comment	Amount (A\$m)
Vineyards	Includes 13,200 hectares of owned vineyards in Australia, the US, NZ and Italy. Refer to Appendix 4	1,393
Property, plant and equipment	Estimated value of non-agricultural land and buildings, plant and equipment	1,300
Stocks	Wine stocks represents >90% of total group inventories. At lower of cost and net realizable value	1,300
Debtors less creditors		200
Brands		??
Total (ex-brand values)		4,193

Citigroup make the point that the current share price has the business valued at 2.3 – 3.0 Billion. None of the possible acquirers seem keen to show their hand through securing an initial stake-holding at this seemingly low price, however, until Foster complete their strategic review of their wine business set for completion by the end of the year. Some still expect further write-downs.

Figure 9 Citigroup valuation of whole business. Source Citi Investment Research



Source: Citi Investment Research

Even at these prices, that's a little bit more than most of us are up for so what happens if the wine business gets broken up and the brands sold off?

Figure 8. Sum-of-the-brands valuation of FGL's wine business (A\$m)

Top 5 wine brands	Case volumes in millions (FY09E)	EBITDA (FY09E)	EBITDA per case (A\$ per case)	Multiple premium/discount to mean	M&A multiple (x)	Value
Penfolds	3.2	58	18.1	0%	13.2	764
Beringer	8.6	93	10.8	-15%	11.2	1,048
Wolf Blass	3.8	53	14.1	-15%	11.2	599
Rosemount	3.8	40	10.6	-40%	7.9	317
Lindemans	5.8	58	10.0	-25%	9.9	573
Top 5	25.2	303	12.0	-9%	10.9	3,301
Other brands	13.3	142	10.7	-25%	9.9	1,410
Total	38.5	445	11.6	-12%	10.6	4,710

Source: Citi Investment Research

Bob Oatley would have to be licking his lips at the prospect of buying back Rosemount at that sort of price.

Whatever happens as a result of the review, there will be assets for sale and those that can leverage them through either resourcing market growth opportunities for their own brands or improving focus on Fosters brands will reap significant benefits.

WBS is well qualified and uniquely placed to help you with the M & A process and go forward strategy.

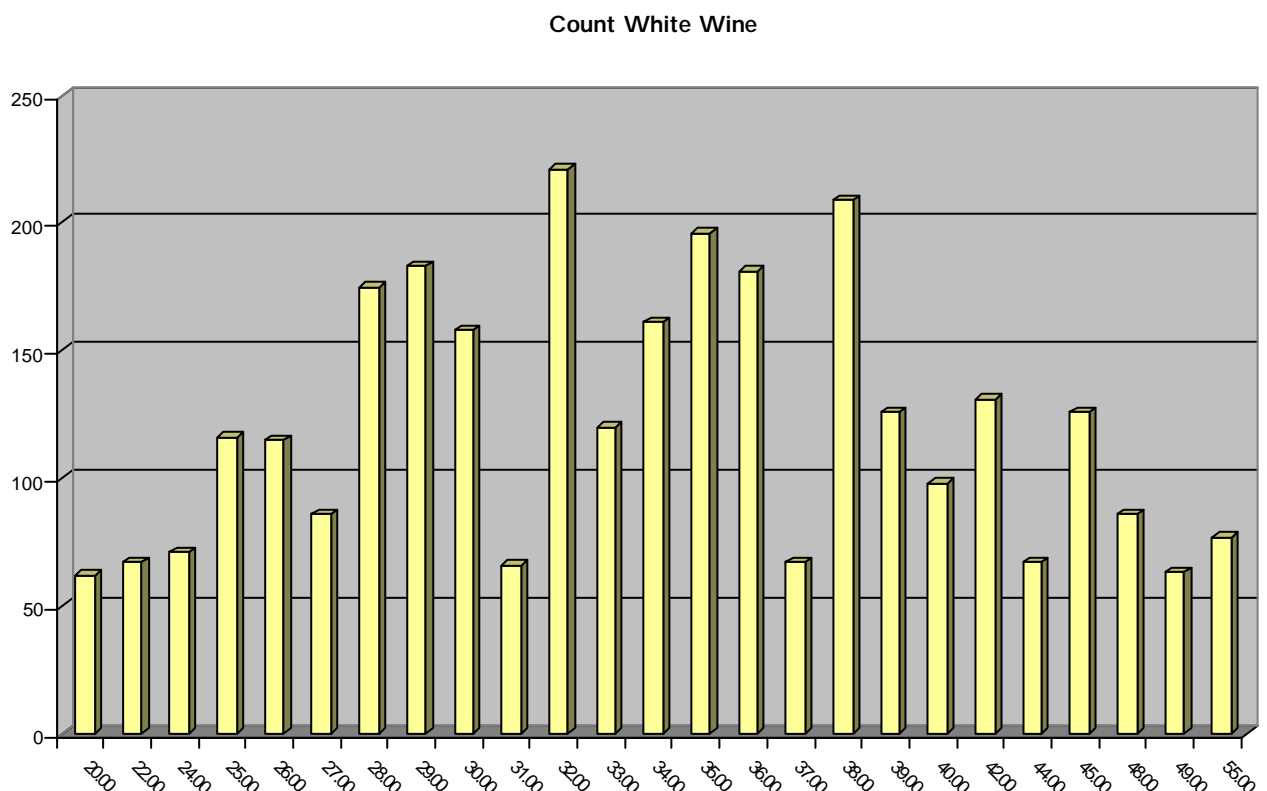
Smart Pricing

As most of you will know, WBS has just completed the first ever comprehensive investigation into On Premise distribution in Australia.

The report covers

- Who the best distributors are nationally and by state
- The effectiveness or otherwise of the different distribution models
- The most listed wine styles, brands and regions (nationally and by state)
- Prices achieved for “by the bottle” and “by the glass” listings - by style and by state.
- Potential profits for wine business owners
- Opportunities to expand On Premise business

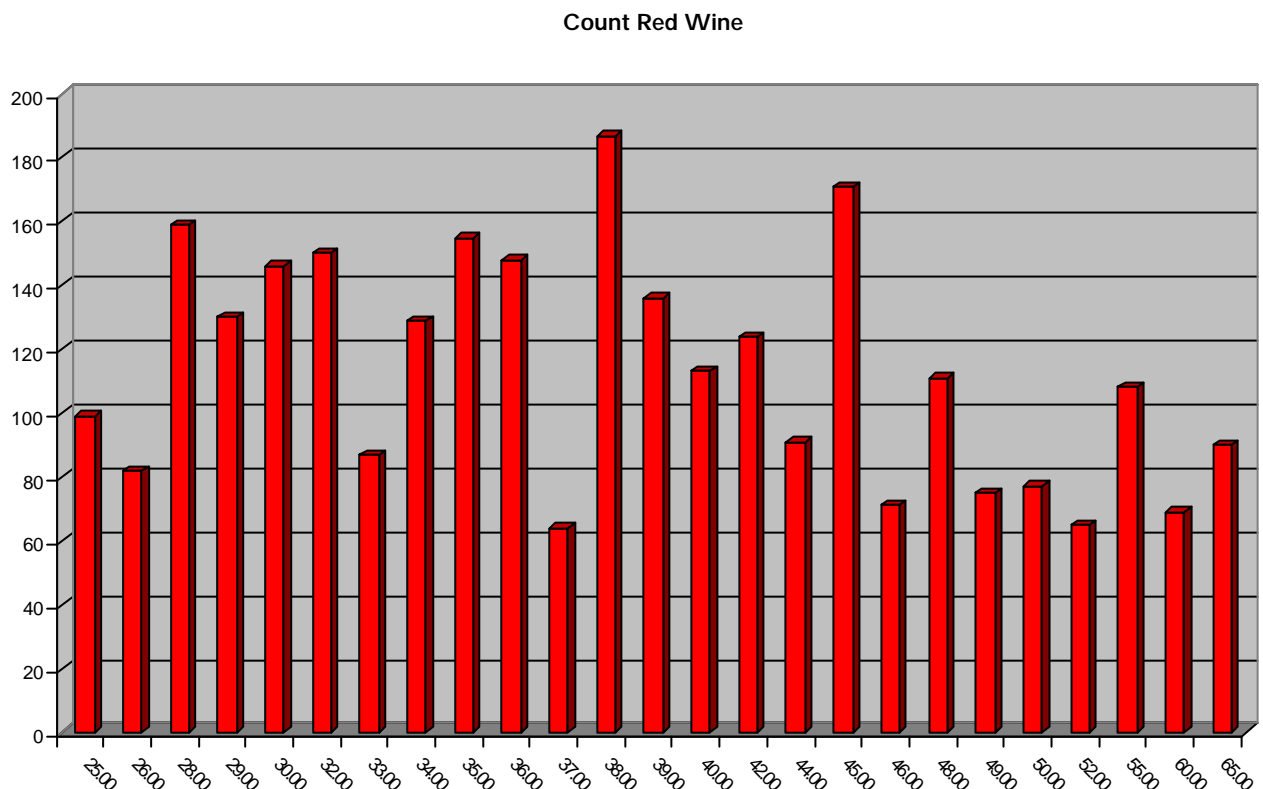
One area not tackled in the report, but a useful piece of analysis all the same, is the key price points by wine style. The average price of a bottle of white wine on premise in Australia is just under \$40 with one third all listings above this price. But what are the most common listed price points?



As you can see, Australia restaurants like round numbers. There were no price points in our “Top 25 most popular” are other than round dollar amounts. So don’t be thinking you’re doing anyone a favour by knocking 50 cents or worse \$1.50 off your agreed sell price, in other words.

Likewise, numbers divisible by 5 are very popular. That is to say, you might as well be \$55.00 as \$50.00 once you go over \$50.00 on the basis of what restaurateurs seem confident in charging.

\$32.00 is the single most popular price point for white wine. So if you're thinking of pricing around \$30, there's another \$2.00 a bottle for you if you're on the job.



When we look at red wine, we can see that the same applies. Red wine as a category achieves an average listed price 38% higher than white but the same rules apply – The “rule of round numbers” and the “rule of five” with \$45.00 being the second most popular price point.

\$40.00 is clearly a “price hurdle” as perceived by the on-trade for both red and white wines but on the basis of this evidence, one best jumped clean over.

So what is a dollar here or there you might ask? Let's take the case of the sales rep who agrees a \$41.50 listing price for your bottle of Shiraz when a \$45.00 price might be both achievable and more likely to be consistent with what the client expects to pay on the basis of the evidence above.

	\$45.00	\$41.50
EBIT @ 25%	\$ 22.14	\$ 15.18
OPEX @ 25%	\$ 22.14	\$ 22.14
COGS @ 50%	\$ 44.28	\$ 44.28
W/Sale	\$ 88.56	\$ 81.60
Per Bottle	\$ 7.38	\$ 6.80
29% WET	\$ 9.52	\$ 8.77
Distributor Margin	30%	30%
LUC	\$ 13.64	\$ 12.58
<u>200% Markup</u>	<u>\$ 40.91</u>	<u>\$ 37.73</u>
Plus GST	\$ 45.00	\$ 41.50

-31%

Using Deloitte ratios for a sustainable wine company (again, not because we have any special relationship with Deloitte but because we support the logic of the ratios based of current average weighted cost of capital), we can say that a box of wine that gives 200% mark-up to the restaurant and 30% margin to the wholesaler (a global standard) and allowing for 29% wine equalisation tax and 10% GST (particular to Australia) will have a wholesale price of \$88.56. Most wine companies globally can make money at that sort of return.

If that price then gets compromised and becomes \$41.50 as a result of “negotiation”, the impact is a 31% drop in profit. Your costs of goods don’t change and your operating expenses remain the same as well. All of the loss makes its way straight to the bottom line. That same is true in reverse, of course.

The key point as originally emphasised in Wine Paper Two is that price point mastery by your front line managers is the single biggest determinant of business profitability.

Wine On Premise in the USA

Top 100 Brands & 100 Individual Wines in USA Restaurants in 2007 Unveiled

An Article By Cyril Penn
From Daily News Links. 09/03/2008

The wine landscape in the nation's restaurants shifted in 2007, according to Restaurant Wine magazine, the bimonthly journal for the hospitality and wine industries.

In two new reports researched and written by Master of Wine and publisher Ronn Wiegand, the Top 100 Wine Brands and Top 100 Individual Wines sold in USA restaurants in 2007 are listed, based on total 9-liter cases consumed across the entire spectrum of American restaurants licensed to serve wine, from casual to fine dining restaurants.

While the on-premise wine market continued to grow in 2007, the rate of growth fell amid a market slowdown starting in August 2007 and coinciding with a malaise in oil and credit markets, Wiegand said in an interview.

Sales were booming through July but the slowdown toward the end of the year dragged down what could have been a stellar year on-premise, he said. "An expected blow out at years' end just didn't happen. It was a modest party at the end of the year -- not the major celebration people were hoping for," Wiegand said, referring to the typical spike in wine sales that occurs before the holiday season."

Wiegand said 68.8 million cases of wine were sold in U.S. restaurants in 2007, up 5.8 percent in volume over 2006. He said that while 2007 was a good year in terms of total volume, 2008 could turn out to be the first year in recent memory in which overall restaurant sales volumes decline.

"This year we will be lucky to hit 65 million cases of wine sold in restaurants, the same level as 2005, which is a decline in real terms because there are more restaurants."

Changes Among the Top 100 Wine Brands

Although the on-premise market for wine grew in 2007, the share held by the Top 100 Wine Brands dipped slightly, to 41.5 percent, because of increased competition, Wiegand notes in the new report. The Top 100 Wine Brands come from only six countries: Australia, Chile, France, Germany, Italy, and the USA. Of these, only Australia lost market share in 2007, due primarily to supply problems.

Seven brands appear on the 2007 list that were not present on the 2006 list. They are: MacMurray Ranch (#48); Toasted Head (#79); Vino Casata (#82); Canyon Road (#84); Concannon (#85); Red Rock Winery (#87); Bogle (#92); Domaine Chandon (#95); and Gabbiano (96).

The minimum case sales in USA restaurants required to make the 2007 list rose to 110,000 cases, up from 105,000 cases for the 2006 list.

The five brands with the greatest sales volume increases on-premise from 2006 to 2007 were: Red Rock Winery (+243 percent); MacMurray Ranch (+110 percent); Smoking Loon (+81.8 percent); Canyon Road (+71.4 percent); and Barefoot Cellars (+66.7 percent) (Red Rock Winery is a relatively new brand from E&J Gallo which debuted in 2006).

Changes Among the Top 100 Individual Wines

In terms of varietal wines, the big winners in 2007 on-premise in terms of case sales among the Top 100 Individual Wines were Pinot Noir (+89 percent), Riesling (+45 percent), and Pinot Grigio (+22.5 percent).

Chardonnay sales among the Top 100 Individual Wines grew a respectable 7 percent, accounting for 30 percent (by volume) of the 100 most popular wines consumed on-premise in the USA in 2007.

For the first time ever, Pinot Grigio ranked behind Chardonnay as the second most popular varietal wine in USA restaurants in 2007, surpassing White Zinfandel, whose Top 100 sales declined by 15 percent.

For the first time ever, a Sauvignon Blanc and a Sangiovese made it to the Top 100 list of the most popular wines sold in USA restaurants. The wines: Whitehaven Sauvignon Blanc and Ruffino Chianti.

The five wines whose on-premise volumes increased the most from 2006 to 2007 were: Sycamore Lane Pinot Grigio (+2,000); Louis M. Martini Sonoma County Cabernet Sauvignon (+280 percent); Red Rock Winery Merlot (+243 percent); Whitehaven Marlborough Sauvignon Blanc (+157 percent); and Schmitt Soehne Relax Riesling from Germany (+129 percent).

(Sycamore Lane Pinot Grigio, the wine that increased the most by volume in the survey, is another new varietal introduced in 2006, from Trinchero Family Estates).

The five wines whose on-premise volumes declined the most from 2006 to 2007 were: Shiraz, down 22 percent, primarily because of supply problems in Australia; generic wines, down 20 percent; White Zinfandel, down 15 percent; and Merlot which fell by 9 percent.

The minimum case sales in USA restaurants required to make the 2007 individual wines list rose to 80,000 cases, up from 75,000 cases for the 2006 list.

Figures for both reports were drawn from reliable industry sources and from extensive interviews with restaurateurs, distributors, importers, and wineries.

RESTAURANT WINE "TOP 20 of the TOP 100 WINE BRANDS" ON-PREMISE 2007

2007 RANKING (VOLUME)

- 1 Beringer Vineyards, Foster's Wine Estates Americas
- 2 Kendall-Jackson. USA. Kendall-Jackson Wine Estates
- 3 Franzia Winetaps, USA, The Wine Group
- 4 Yellow Tail. Australia. W.J. Deutsch & Sons. Ltd.
- 5 Sutter Home, USA, Trinchero Family Estates
- 6 Inglenook. USA, The Wine Group
- 7 Copperidge. USA. E. & J. Gallo Winery
- 8 Cavit. Italy, Palm Bay Imports
- 9 Woodbridge. USA. VineOne (Constellation)
- 10 Foxhorn Vineyards, USA, The Wine Group
- 11 Salmon Creek. USA. Classic Wines of California (Bronco)
- 12 Almaden. USA, The Wine Group
- 13 Chateau Ste. Michelle. USA. Ste. Michelle Wine Estates
- 14 Ecco Domani. Italy. E. & J. Gallo Winery
- 15 Taylor California Cellars, USA Centerra Wine Co. (Constellation)
- 16 Stone Cellars. USA. Foster's Wine Estates Americas
- 17 Sycamore Lane, USA, Trinchero Family Estates
- 18 La Terre Table. USA. VineOne (Constellation)
- 19 Mezzacorona, Sparkling, Italy, Prestige Wine Imports Corp.
- 20 Martini & Rossi Vermouth Vermouth Italy Bacardi USA, Inc.

RESTAURANT WINE "TOP 20 of the TOP 100 INDIVIDUAL WINES" OF 2007 ON-PREMISE

2007 RANKING (VOLUME)

- 1 Kendall-Jackson Vintner's Reserve Chardonnay USA
- 2 Beringer Vineyards White Zinfandel USA
- 3 Cavit Pinot Grigio Italy
- 4 Sutter Home White Zinfandel USA
- 5 Inglenook Chablis USA
- 6 Ecco Domani Pinot Grigio Italy
- 7 Yellow Tail Chardonnay Australia
- 8 Copperidge Chardonnay USA
- 9 Yellow Tail Shiraz Australia
- 10 Franzia Winetaps Vintner Select White Zinfandel USA
- 11 Mezzacorona Pinot Grigio Italy
- 12 Franzia Winetaps Vintner Select Chardonnay USA
- 13 Woodbridge Chardonnay USA
- 14 Wycliff Brut USA
- 15 Santa Margherita Pinot Grigio Italy
- 16 Taylor California Cellars Chablis USA
- 17 Martini & Rossi Vermouth Dry Vermouth Italy
- 18 Foxhorn Vineyards Chardonnay USA
- 19 Sutter Home Chardonnay USA
- 20 Blackstone Merlot USA

The “Top Ten Tips” for Building Better Wine Businesses.

(from Wine Business Solutions article published in Wine Business Magazine, March 2007)

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 where ever possible. Everybody knows they should do this. Few do. The difference in 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.