

Wine Business Solutions



The Wine Paper 8

Wine Marketing Australasia

Day 2



Page 3 – An accidental luxury brand?

Page 5 – Left brain wines

Page 8 – Meltdown and madness in the US?

Page 11 – What's making the wine list?

Page 13 – Getting more from your Cellar Door

Page 18 – Where to now for Brand Australia

Page 21 – The Top Ten Tips for Building Better Wine Business.

AN ACCIDENTAL LUXURY BRAND?

What Steve Smith and his team at Craggy Range have achieved is nothing short of extraordinary. In just a decade, they have created what is arguably New Zealand's best wine business. With 200,000 cases of sales, nearly 80,000 of which is under the iconic Craggy Range label, all wines are made from and named after individual vineyards that express the quality and diversity possible across the country's many different climatic and geographic zones.

Steve had a bit of an unfair advantage in this regard. He was once chief grower liaison officer with Villa Maria so had a very good handle on where the best sites lay. The "accidental" in the title of his very well crafted speech was in reference to the Craggy Range home site in Hawkes Bay becoming available at precisely the moment that Terry Peabody was looking to make a major investment in the wine industry. Nine years earlier, Steve had been part of a team that had fought a local gravel mining company so as to protect what is now the brand home. For all that time, Steve had felt that it might just be one of the best places to grow red grapes in New Zealand. History and Craggy Range's many accolades would later prove that to be the case.



Sure they may have had an advantage in the form of strong financial backer but none of this would have been possible without the obsessive focus on quality that pervades everything that Craggy Range do right, down to way the grounds and vineyards are kept.

Steve is a leader and is leading. He reminds me of a young Brian Croser (without the scary moustache that made him look like Hitler, as Zar Brooks put it later in the day). Steve is also Chairman of Judges in New Zealand and so has a fair bit of responsibility in laying out future direction for NZ wine, a task he doesn't shy away from.

Everyone is worried about the “Sauvalanch” and is asking “where to next for New Zealand wine?” Steve pointed out that New Zealand has been quietly building a reputation for producing great aromatic wines for decades. Sauvignon Blanc just happens to be the one that popular right now. Riesling, Pinot Gris and Gewürztraminer wait in the wings. From WBS's research, Marlborough is the third most popular region on wine lists in Great Britain for Riesling after the Mosel Valley and Alsace. Grüner Veltliner and Albariño may also find a new cool climate home in shaky isles at some point in the future, in my view at least.

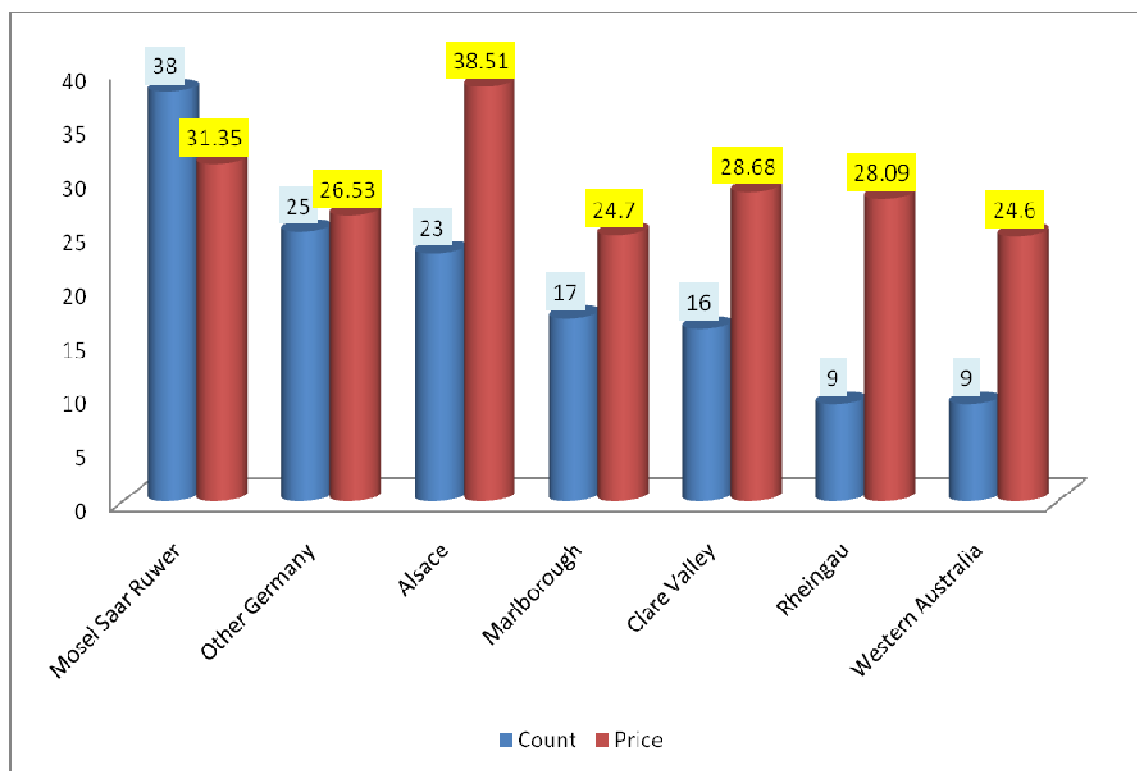


Figure 26 ex “Wine On-Premise UK” research – Riesling listings by count and Price ave. £ – Leading Regions

Pinot Noir is also doing well of course as are “Bordereaux” style blends. Many of you will have seen the publicity in relation to taste off held in London between top Bordeaux wine and those of the Gimblett Gravels <http://www.telegraph.co.uk/foodanddrink/wine/5153891/New-Zealand-red-wine-icons-of-the-future.html>

Steve feels that their best wine to date however and perhaps their best going forward is Syrah. *“I think the ‘06 Le Sol is the best wine I have ever tasted”* – Phil Connolly, Rose Bay North Cellars.

What other name could he have? Sparky was known as Sparky long before we ever met as students at Roseworthy. He may have been a torrent of intellectual energy then but unlike good wine and most of us, age has not mellowed him. He and his wife Sarah are amongst the hardest working people in the Australian wine industry.



We were treated to some pure theatre as Sparky walked and talked us through the Mollydooker story. As part of the “show” he got the audience involved in doing the “Mollydooker Shake”. Sparky uses nitrogen to preserve his wines considerate of the large number of people who are allergic to sulphites and histamines in higher alcohol red wines particularly. (Shaking to form a “cappuccino” foam is the way to get the nitrogen out and prepare the wines for drinking apparently.)



Sparky absolutely suffers the fate of the tall poppy but how he has achieved success bears careful consideration. Sparky truly understands “Blue Ocean Strategy” in that he has taken every step in the value chain and asked three questions.

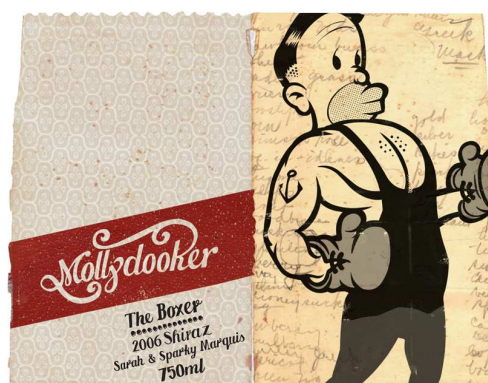
1. How can we do this differently and better than it has been done before?
2. How can we add value at each step?
3. How can we incorporate the way that we add value into our story?

It starts in the vineyard. Sparky says he pays his growers a sizeable premium above regional average (and encourages them to grow the foliage necessary for long hang times, big alcohol and big flavours clearly).



They own their own winery and control their quality. Nothing unusual there but the telling of the story of the family involvement and the winery culture makes it seem like a very different sort of a place altogether to the “a typical Australian wine factory” as Zar Brooks puts it...

Next is their promise to deliver two quality levels above the price point. Part of Sparky’s preformance was the mathematics around the number of dollars required for consumers to purchase “incremental Parker points” comparing Grange Hermitage (at around \$A500) with “The Boxer” (\$US25 and with a 93 point score in the Wine Advocate).



Understanding the whole value proposition however and not wanting to leave too much money on the table, Sparky then pointed out that their move from \$US20 to \$US25 per bottle doubled their profits. This, of course is one of the central themes of WBS's "How to Make Money in the Wine Industry" workshops run across Australia and South Africa this winter.

In the wrap up, I asked Sparky about the importance of distribution partners. I commented that in the US particularly some people find just getting distributors to answer their phone and emails to be a significant challenge. (Sparky has the name, email address and phone number of all his key people listed on his web site). As you might expect, his response was that all of these people are absolutely critical to getting the job done.

Above all though, theirs has an element in common with all wine industry success stories I encounter in my travels. They're dedicated to winning their particular battle one consumer at a time and invest huge amounts of their time in doing so.

When Sparky was asked about whether he saw demand for his style of winemaking becoming less popular, he said that he expected there to be a lot more people looking for those wines. Given the weight of numbers of new Millennial drinkers coming into the market, he is almost certainly right.

Rob Geddes MW was also right to say that people are looking for more elegant wine styles to drink with food – a claim heavily backed up by our research in the UK On-Premise market. The key as always is in understanding the different requirements of the different segments.

At the end of the day, Sparky's approach to his market is just as valid as Steve Smith's approach to his. They could hardly be more different it would seem and yet Craggy Range distribute the portfolio of the "Grateful Pallet" in Australia owned by Sparky's old business partner Dan Philips. Clearly there is respect.



From one whirlwind to another - Zar Brooks, in his inimitable style, then gave us PowerPoint presentation...



Thank you, Zar...

Zar drew upon his impressive industry network in order to pull together a status report on the US.

The first part of Zar's presentation dealt with what we are all hearing – people in the US (and everywhere else for that matter) are trading down, staying home, drinking slightly more and paying less. This is what happens in a recession despite some commentators attempts to paint this as an entirely new development...

Some things may have changed forever. Napa Cabernet may never again achieve pre GFC prices but you could argue that this is simply a function of the market “growing up”. As US wine drinkers rapidly became more sophisticated, it seemed inevitable that Napa Cab's value proposition and that of some of the Californian “cult” wines would come into question, particularly when consumers have the rest of the world's wine freely available to choose from..

It is critical, I think, to draw the distinction between what is happening;

- to premium wine generically,
- to imported wine in the US (all of which has suffered)
- as a result of de-stocking and
- what is happening to Australian wine

To dismiss the latter as merely a function of the former would be to pass up a one of opportunity to re-evaluate.

“There is no ‘Natural’ Australian or New Zealand wine market in the US. The imported category is not a war with a victor as the Californians would have it, it is fashion and ratings...TV, movie, the next thing, not the last thing. We (Australia) are the hot thing. Not the next fashion. We’re yesterday’s news.”

Bruce Cunningham - X Winery

“...you know this but it is overwhelming for Australian wines in the US – there is a strong backlash against ‘critter brands’ and the caricatured ‘Parkerized’ big reds. Trend is toward more sophistication, regional storytelling, and alternate blends. Less OTT styles. They are scaring the trade away from us. “That said the trends are to back to basics style of outreach & communication....just getting people in front of people and opening our wines.

Taking nothing for granted....losing the swagger and really going back to the late 80’s/early 90’s ‘hard work’ era with new energy and verve. In general, there is a very strong enviro-friendly and organic/buy local lifestyle trend, that I doubt will go away anytime soon – just a shift toward more conscientiousness and responsibility.”

Angela Slade, PR & Marketing Manager Negociants USA

It's increasingly difficult to get the trade's attention regarding Aussie reds as they have now developed a stereotype of big, alcoholic and overripe (even if, in reality, there is a lot of diversity...)

There is a flood of big, hyperripe wine in the market at the moment, and not just from Australia.

What I hear is that wines in the \$10 to \$20 range are selling well, so Chile, Argentina, Italy, Portugal and especially Spain are all benefiting from that.

Josh Greene US Wine and Spirits

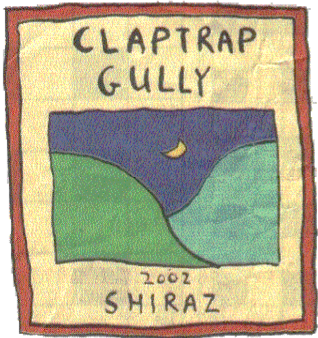
Zar then rounded out with some very sage advice - in twelve very nice PowerPoint bullet points, if you don't mind;

- Sell the story
- Make good wine
- Have credible stories
- Set realistic expectations
- Manage good branding
- Use a simple approach
- Be Patient
- Spend the Money
- Put people in the market often
- Be yourself not a caricature.
- Treat wine like wine
- Remember everyone for ever.

THE AGE • SATURDAY, JULY 12, 2003
theage.com.au


LEUNIG

New Releases (with quotes from labels)




CLAPTRAP GULLY
2002 SHIRAZ

"... Claptrap Gully is the name given to the bar in the pub where our advertising agency creative directors have lunch and dream up new wine labels..."



Beryl's Handbag
PINOT NOIR
2002

"...it is said that many years ago our chief winemaker conducted an illicit, tempestuous affair with an actress named Beryl. To this day vineyard workers still unearth nail files, perfume bottles and cigarette lighters said to have fallen from Beryl's handbag during the wild, nocturnal love trysts amongst the Pinot Noir vines..."



CONDOM CREEK
Chardonnay
2002

"...the creek which borders our Chardonnay paddock is locally famous for the abundance of condoms which can be seen floating on the current or washed up along the banks. We have named this sensuous, pleasure driven wine in honour of the stream which irrigates our vines..."

Leunig

WHAT'S MAKING THE WINE LIST?

Joint President of the Australian Sommeliers association, Ben Moehtar and Greg Plowes, Sommelier of Tetsuya's (Australia's and one of the world's best restaurants) then gave us a run down on what it takes to make their wine lists.



Ben admitted that as he had gotten older (he looks at least 28) he found himself less likely to want to tell a brand's story and therefore stressed the importance of capturing the imagination of young people at the right moment. Working through centres of tourism and hospitality education is therefore going to be very important for people serious about building On-Premise brands.

Ben also said that he felt that people leaving him bottles were hugely wasteful. To be presented with a glass of your wine and left to ponder it was his preferred way to evaluate quality. That then requires diligent follow up, of course, and he did not spare criticism for those who do not. He spoke of the mystery people who send him bottles of wine but then never make themselves know to him.

As to how to win their hearts and minds, Ben and Greg both said that they simply couldn't spend enough time talking to winemakers in their vineyards seeing, hearing, and felling the things that really make the difference.

Again the theme of making wines that are the best possible expression of where they come from, that are elegant, complex and don't fight with food came up. It was discussed and agreed in the panel session that even though this might seem obvious, so many producers were still missing the point.

Rob Geddes MW said that in a recently conducted comprehensive review of wines termed "Reserve", his conclusion was that for the majority of makers, "Reserve" means "More" – more oak, more extraction, more alcohol etc all of which fights with food rather than complements it. The comment received strong support from the panel. This is the complete opposite of value innovation – putting something very expensive in that actually works against you.

I rounded out by suggesting that those producers that were winning as a result of producing wines that do work with food tended to be those that had invested a lot of time listening like d'Arenberg. Others like Chapel Hill are following suit installing open fermenters etc, looking for every way to produce more elegant, food friendly wines.

The challenge now for Australia's "Regional Heroes" is to sell the message.



Last but absolutely not least was Dr Johan Bruwer. Johan is the world's foremost expert where the cellar door and regional marketing are concerned have carried out research for over 200 companies in 35 regions of 6 countries. He knows his stuff.



Johan's work centres on what he calls the cellar door's "wheel of information" and has yielded some very useful insights.

For example - roughly equal numbers of males and females visit cellar doors. They have high levels of disposable income compared to the general population as you might expect. What is perhaps surprising is that they are much younger than the general population of wine drinkers and nearly half of all tourists are visiting for the first time. It's very clear therefore that this is an extremely important moment in most of these people's wine drinking lives and that if the job is done properly (or not), you may just be remembered forever.

There are also a high numbers of overseas tourists (17% of visitors to South Australian wineries) and few wineries have a direct to consumer strategies in place to take full advantage. VBS is currently working with a number of clients in Australia, NZ and South Africa to put into place solutions to capitalise on what for many wineries is lost opportunity.

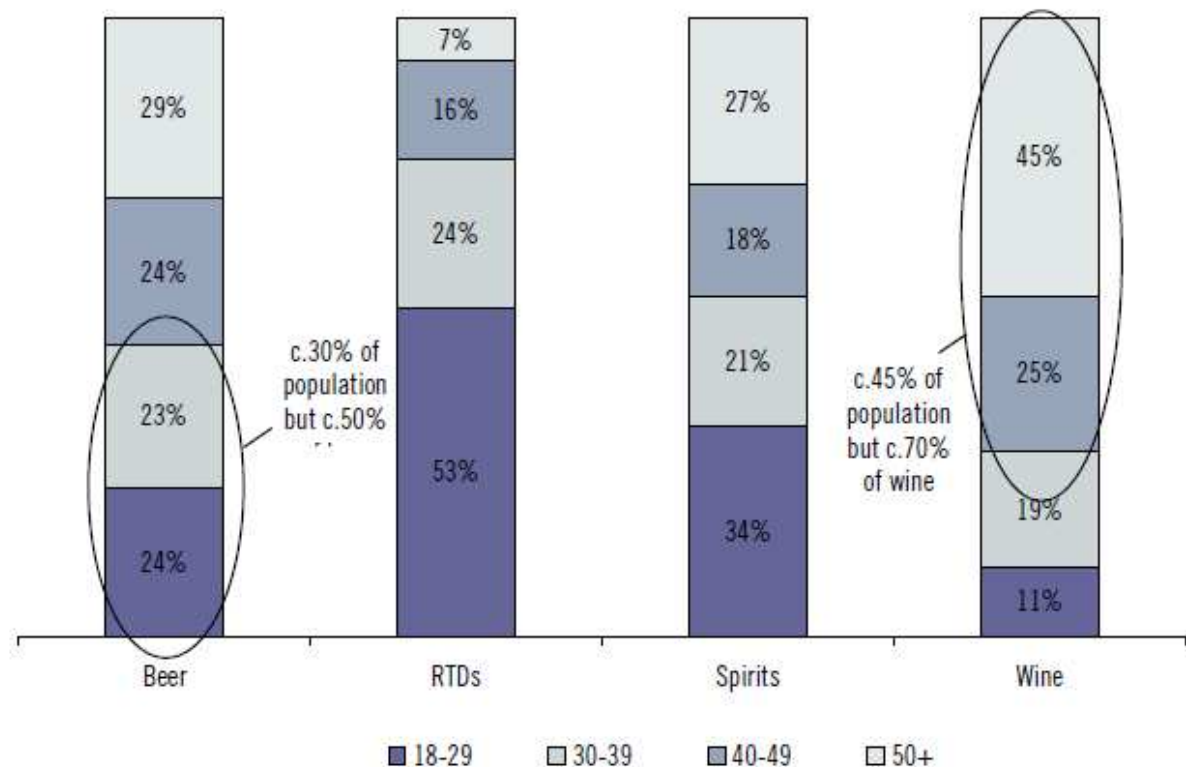
Demographic Profiles of Cellar Door Visitors Across Several Australian Wine Regions

	<u>Coona-warra</u>	<u>Swan Valley</u>	<u>Barossa Valley</u>	<u>Adelaide</u>	<u>McLaren Hills</u>	<u>Rutherglen</u>
	%	%	%	%	%	%
Male	53.5	52.7	46.7	43.8	48.6	49.0
Female	46.5	47.3	53.3	56.2	51.4	51.0
18-24 years	8.0	13.2	13.3	6.4	16.9	6.8
25-34 years	30.7	28.0	32.5	33.6	33.1	27.6
35-44 years	23.4	20.2	16.7	23.4	14.8	21.1
45-54 years	23.0	19.6	15.0	22.3	16.9	23.4
55-65 years	12.8	12.5	20.0	10.6	14.8	15.3
65 + years	2.2	6.5	2.5	3.7	3.5	5.8

(© Bruwer, 2006/7)

As you can plainly see, the biggest group of cellar door visitors are aged 25-34 and yet 70% of all wine in Australia is drunk by people aged Over 40.

Figure 11. Alcohol category consumption by demographic



Source: Lion Nathan presentation (November 2006), Citi Investment Research and Analysis

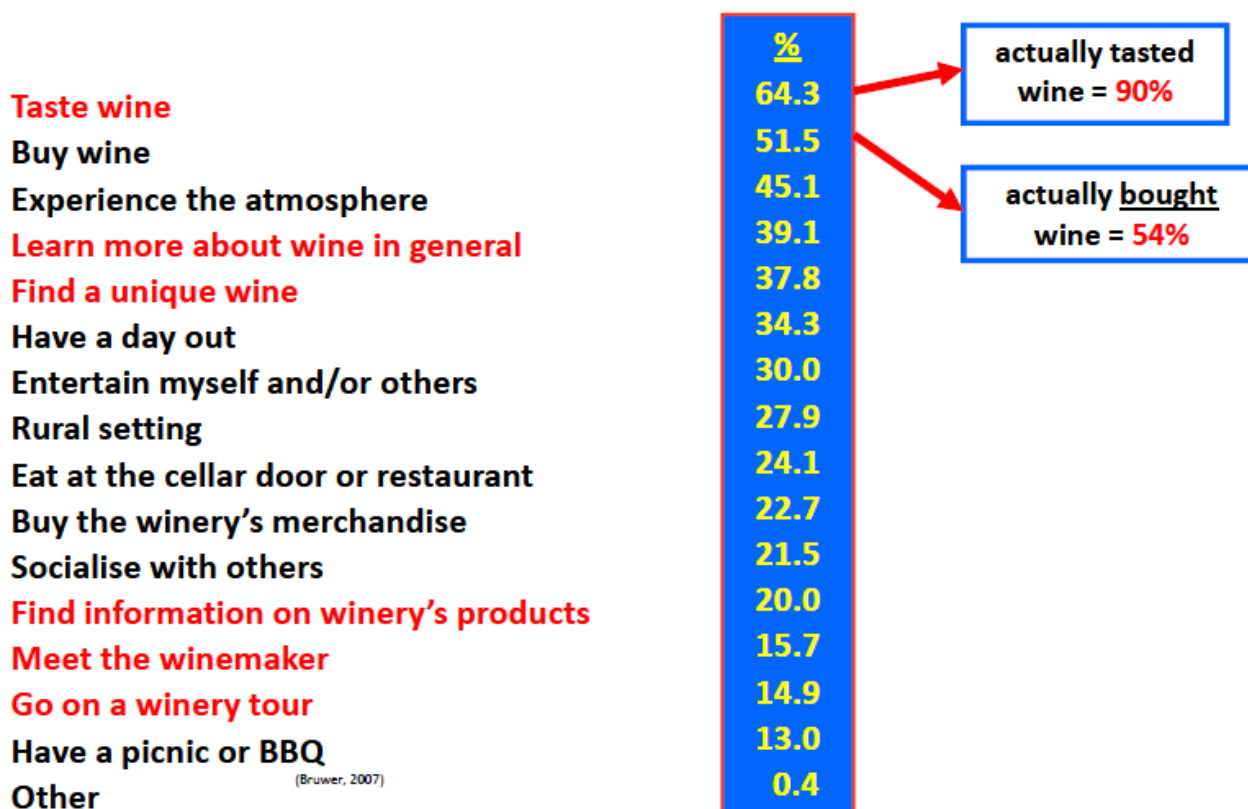
There is also a marked difference between the behaviour of first time buyers and repeat visitors. First time buyers spend more, are less likely to buy and buy fewer bottles.

	<u>Repeat</u>	<u>1st Visit</u>
Bought wine at cellar door	72.1%	58.9%
Amount spent on wine bought	\$103.88	\$63.67
Number of bottles of wine bought	5.9	3.3
Average price per bottle bought	\$17.55	\$19.29

(© 2006, Johan Bruwer)

The good news for our Australian clients is that when people visit the cellar door, they are going there to buy wine. I saw the results of a similar survey carried out in Sonoma and to “have a day out” was the number one reason for visiting a wine region giving them a very different challenge in terms of engaging visitors.

Visitors' Motivations for Visiting Cellar Doors in a Well-known Australian Wine Region



How people make the decision to visit a cellar door and when is of primary importance. One of our South African clients is doing his Masters Thesis on exactly that. Word of mouth is clearly the most important source of information. According to McKinsey, about two-thirds of all economic activity in the US today is influenced by shared opinions about a product, brand or service.

Sources of Information Used by Wine Tourists for the Visit to Cellar Doors

	%
Word-of-mouth	38.7
Previous visits to the wine region/winery	25.2
Region's Tourist Information Bureau	15.5
Previous exposure to winery's label elsewhere	14.9
Wine retail outlet	11.5
Tour guide or travel agent	9.9
Billboards or signage while driving past	8.4
Wine tasting elsewhere	8.4
Another winery in the region	8.2
Newspaper or magazine <i>advertising</i>	8.0
Newspaper or magazine <i>article</i>	6.4
Winery brochure or pamphlet	5.7
Internet or website of a winery	5.1
Attending a wine festival or event	3.9
State Tourism Commission	3.7
TV program	3.5
Local accommodation provider	3.1
Attending a wine show or trade fair	1.2
Restaurant's wine list	1.0
Local convention or conference	0.6
(Bruwer, 2005)	

**'informal'
= 56%!**

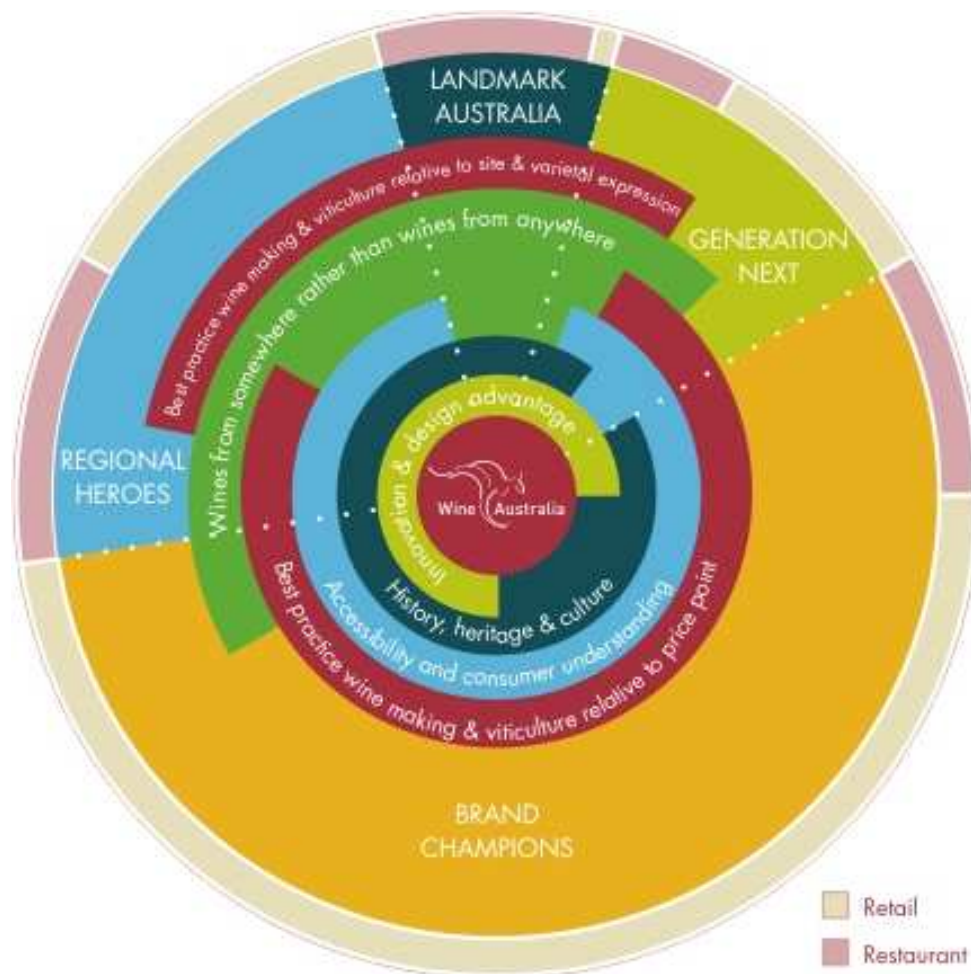
Knowing who your “referrers” are is going to be critical. I recently phoned Dan Murphys to see whether they stocked one of my client’s wine. “No” they said. “They are small vendors so don’t fit our national distribution model. We have been pushing for local distribution of our region’s wines but can’t seem to get that through. Whenever we get asked, we send people to the winery”. Who would have thought? I made sure that my client dropped bottles off to their staff as a “thank you”. I’m not sure how that sits with their “national samples policy” but they got the message that their efforts were appreciated.

It would be interesting to repeat the research above today and see to what extent internet search and use of social media has increased as a means of making these types of decisions particularly given the average age of visitors. One of our South African clients is an avid fan of Twitter, not because he likes missing Super 14 games on Saturday morning because he is busy social networking but because all traffic driven to and from his homepage helps push his web site up the page rankings in Google which helps when people are searching for what winery to visit.

The most important outtake for me from Johan’s presentation was that on average, 50% of visitors did buy a winery’s wine in retail within 3 months of visiting. Whilst only 6% of wine company’s sales occur at cellar door, on average, these customers thereafter drive 18% of ongoing sales.

WHERE TO NOW FOR BRAND AUSTRALIA?

The final session was a panel discussion on Brand Australia. I stirred to pot by presenting “Brand Australia” as it appears on the Wine Australia web site

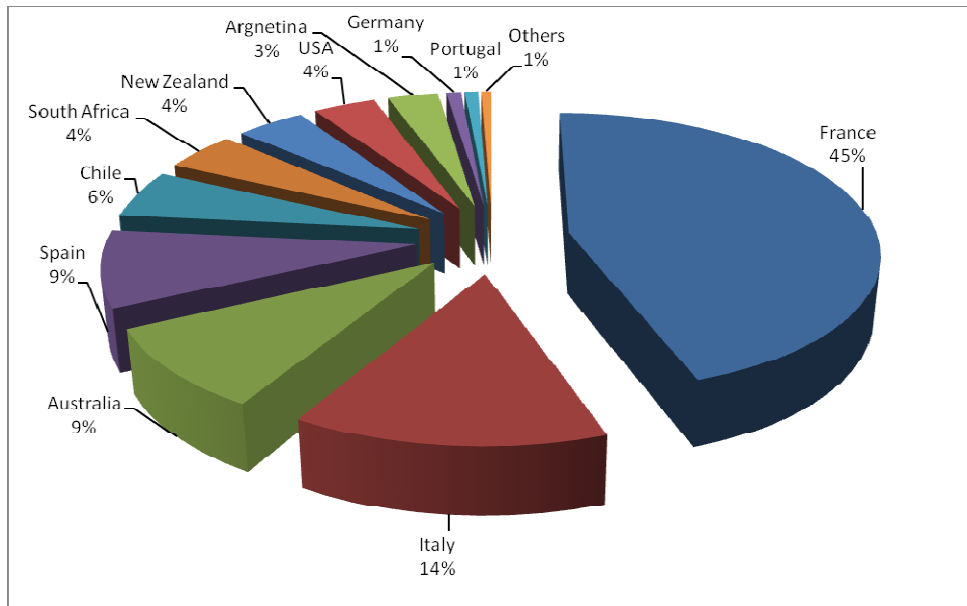


This drew some fierce criticism with people saying that it was too complicated, that they didn't know which one they were supposed to be and what to do about it. I said that I did understand and support what the AWBC is doing but suggested that the focus needs be on those things that I highlighted in my presentation in Day One:

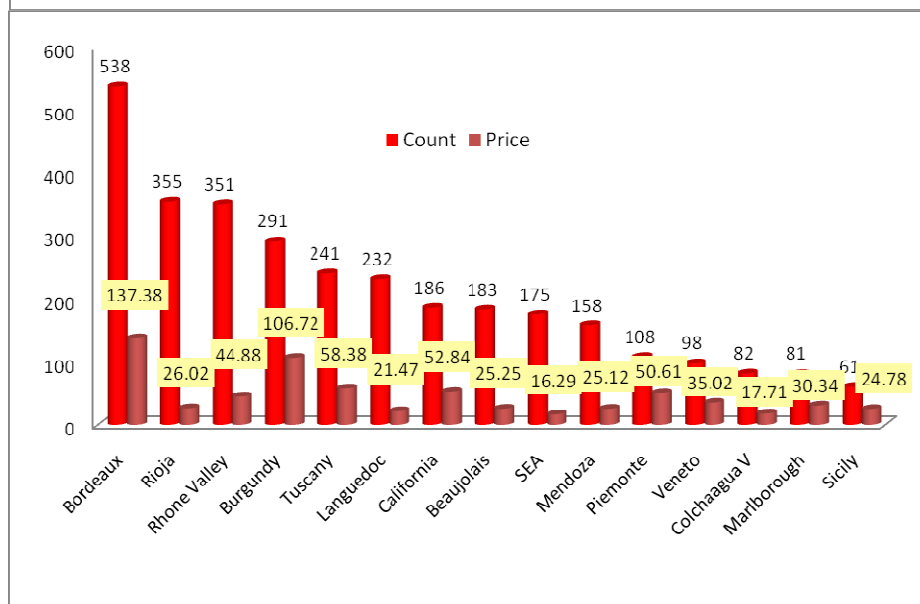
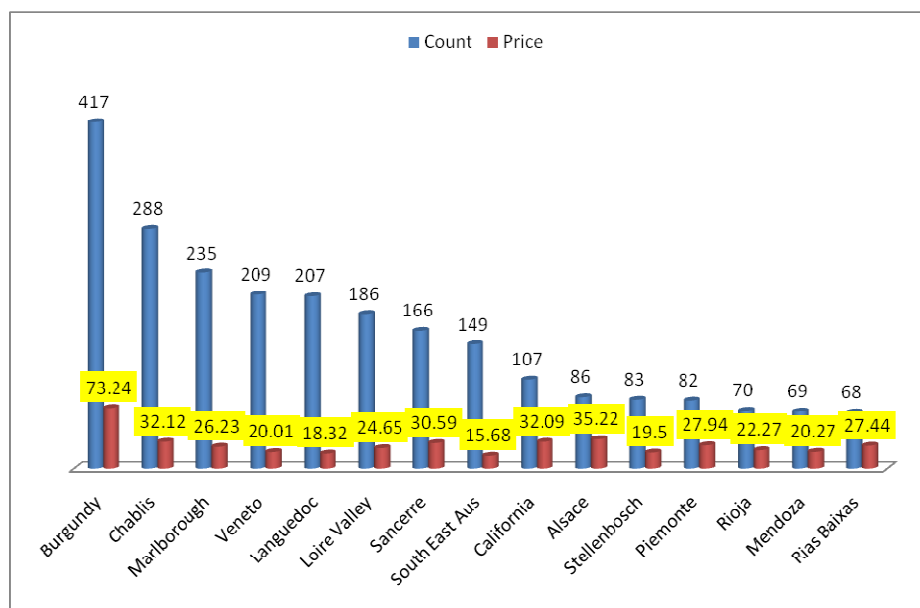
- Who is drinking wine?
- Why are they drinking it?
- What do they want from the experience of it?

Nearly all small to medium wine businesses are either Regional Heroes or Generation Next. The choice is simply then whether you want to build your business around an Aspirational audience or a wine orientated one. Extremely different approaches are required for each as we have been hearing.

To really get things going, I further pointed out that, from WBS's research into the On Premise market in the UK, Australia had just 9% of wine listings compared with 23% share of the Off-trade.



Australia has no region in to top 15 white or red wine regions.



This is kind of like not being on the first page of Google. You have practically no chance. The average price of Australian wine on wine lists in the UK is £26 compared with £43 for all wine. If you want to find one wine from important regions like Coonawarra, Margaret River, McLaren Vale or the Hunter Valley, you would have to thumb your way past 300 other wines visiting, on average, 6 restaurants.

Rob Geddes suggested that it is vital that people who have the sophistication and confidence to talk to the gatekeepers in the UK On-Trade to get on a plane and communicate the true quality and diversity that is available. It seems ludicrous, in my view at least, that wines from obscure regions of France, islands in the Mediterranean and Cru Beaujolais are able to push out the best of Australian wine. Some of us clearly haven't got the message through.

It was suggested that the national body needed to fund the regions to do their own promotion. This has to be approached with caution, of course. Only last week we saw a number of the leading lights in the UK wine industry insist that France change the way it markets its wines as its main regions refuse to work with one another. On Friday, we read news of the two main representative bodies in Burgundy having a very public spat.

From workshops WBS ran around Australia in the lead up to the conference, perhaps the best idea was that of using a "quality mark" to indicate that wine had adhered to specific quality / sustainability factors. Whilst the discussions about just what the quality mark should include and exclude are bound to be contentious, it must be worth the effort. You have only to look at what a difference the "Chianti Classico Black Cockerel" has made to the marketability of their wines. Appellation systems are clearly not what is wanted but a means by which quality producers can differentiate their efforts is clearly needed in many regions.

We didn't have time in a forty minute panel session to come up with the great panacea for all the wine industry's woes. That remains the ongoing topic for discussion for the next Wine Marketing Australasia conference.

The one message that we all took away, I think, is the same one I started the year with:

This is the year of hard work.

It's time to knuckle down, get our opportunity clear in our heads and set about the tough business of winning customers one at a time.

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.