Wine Business Solutions

The Wine Paper 14

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One question I often get asked in relation to our On-Premise research is – "Is your exercise a fair comparison given the market we serve?" The assumption being that because WBS surveys the whole market, our findings may be more or less relevant to different types of brands and distributors.

This is a very valid question but one that I have been reluctant to answer because just how do you classify restaurants in any case? It simply doesn't hold true anymore that just because a restaurant is in a club or pub, for example, that it is a 'bad' restaurant. Cracking good restaurants continue to appear in the most unlikely places. Nor, conversely, does it apply that just because a restaurant has a fancy address that it will be expensive (or any good). The GFC has turned a lot of old assumptions on their head.

So how can you classify restaurants on a consistent and meaningful basis? I would propose that the only fair and reasonable way to do it is by looking at the price of a main course. That, after all, is how most of us decide whether a restaurant is for us or not on any given occasion.

Those of you who are regular readers will remember that the most popular price for a bottle of wine on a wine list in Australia is $32. After analysing our database, it turns out that the average price of a main course plate of food in Australia is - wait for it – exactly $32.

Why is this so? My pet theory is that most people have a number in their head as to what they want to spend on a plate of food or a bottle of wine (about $30) and that $32 is an acceptable stretch. It may also act as a little insurance against missing out through being altogether too mean.

How are the numbers of Australian restaurants divided by price of a main course?

Ave Main	%Sample	Ave. Listings	Ave. Bottle
<$20	19%	41	$ 45.82
$20-25	20%	48	$ 44.12
$25-30	22%	55	$ 57.48
$30-35	21%	74	$ 59.95
$35-40	12%	78	$ 67.63
>$40	6%	100	$ 80.38

Figure One – Share of total Australian restaurants by price of main course, their ave. number of wine listings and ave. price per bottle

Around equals 5ths of all restaurants have an average price for their main courses below $20, $20-25, $25-30, $30-35 and above $35 respectively.

As you would expect, the higher the average price of the main (and, one would hope, the standard of the restaurant) the greater the number of bottles of wine listed. The same, however, does not apply to price. Those restaurants with inexpensive food still want to clean up through their wine list, it seems.

(Note - Average and most popular price are two very different ideas)

According to our research, the average listed price of a bottle of wine grew by 13% from late 2008 to early 2010. Clearly restaurateurs are using wine to shield from the impact of lower food spend and rents that have yet to see the impact of Australia's looming commercial property price adjustment.

Who has the most expensive food in Australia? Not surprisingly Victoria wins that one but hats off to South Australia for providing good value food and making people pay for a decent bottle of wine.

	NSW	QLD	SA	VIC	WA
Ave Main	$ 31.61	$ 29.48	$ 26.48	$ 33.45	$ 32.06
Ave Bottle	$ 58.46	$ 51.89	$ 59.28	$ 55.89	$ 59.32
Ratio	54%	57%	45%	60%	54%

Figure Two – Ave. price of a main course, ave. price of a bottle of wine and the ratio of one to the other

So now for the big question – Do different distributors perform better in different market segments? The answer is "yes and no". All of our Top Ten distributors (as assessed from our sample of nearly 20,000 listings in our Wine On-Premise Australian 2010 survey) faired reasonably well across restaurants of all price categories. There were no "bolters", that is to say, companies that specialise in the high end or low end doing exceptionally well who were absent from other sectors of the market.

	<$20	**$20-25**	**$25-30**	**$30-35**	**$35-40**	**>$40**
Fosters	19%	19%	10%	5%	9%	9%
FWP	3%	9%	9%	9%	9%	14%
S Smith & Sons	7%	5%	8%	5%	5%	5%
Red & White	7%	4%	6%	6%	5%	4%
Negociants	3%	6%	5%	5%	5%	8%
Moet Hennesy	3%	4%	4%	3%	6%	9%
Constellation	4%	3%	5%	3%	3%	4%
Four Seasons	3%	2%	3%	3%	3%	3%
Mezzanine	1%	2%	1%	2%	1%	2%
Fesq	2%	2%	1%	1%	2%	3%
Top 10	**50%**	**55%**	**53%**	**41%**	**48%**	**59%**

Figure Three – The Top Ten Distributors On-Premise and their share by restaurant category (main course price)

This, I think, will surprise some distributors. It was as a result of a number claiming that their profile was very different across different market sectors that we undertook this analysis.

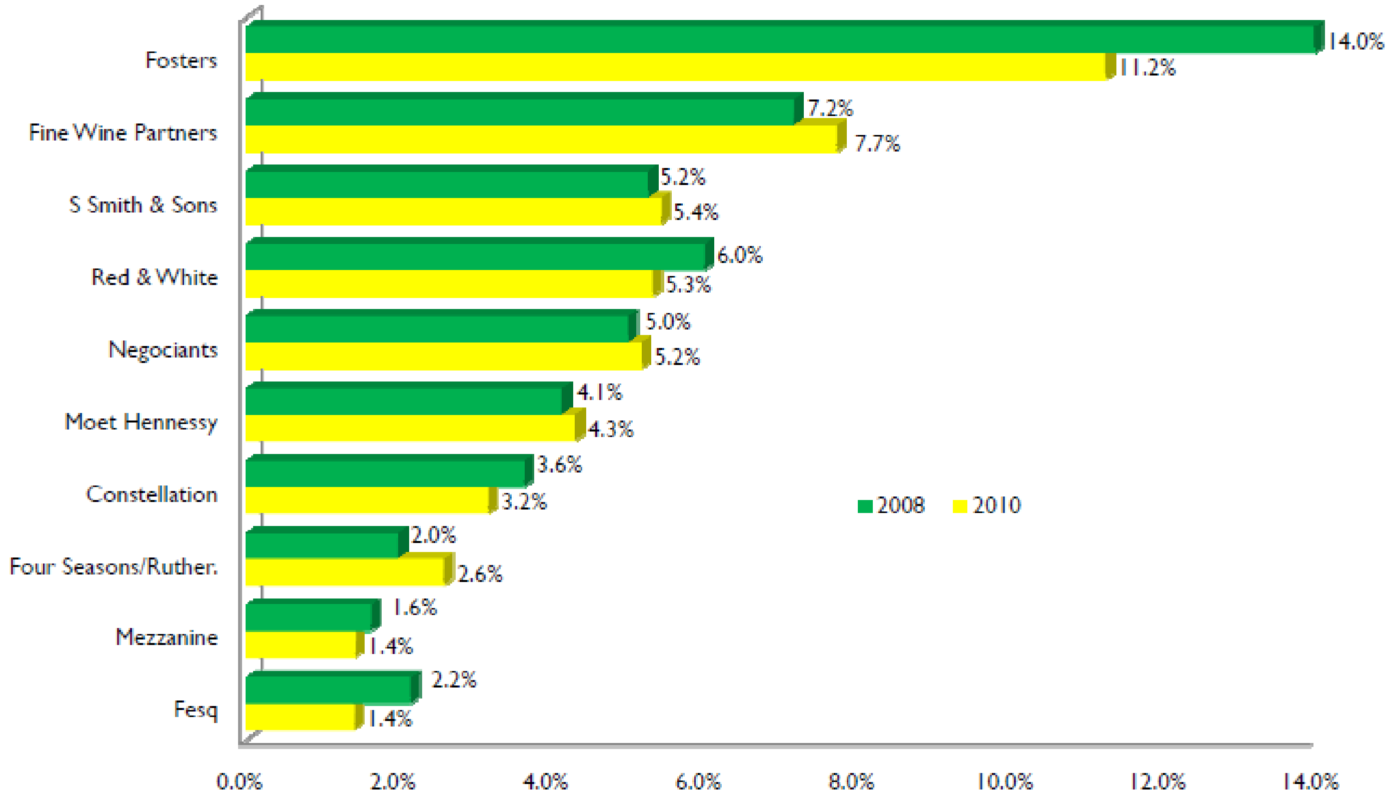

Figure Four – The Top 10 On-Premise Distributors in Australia – share of listings total market

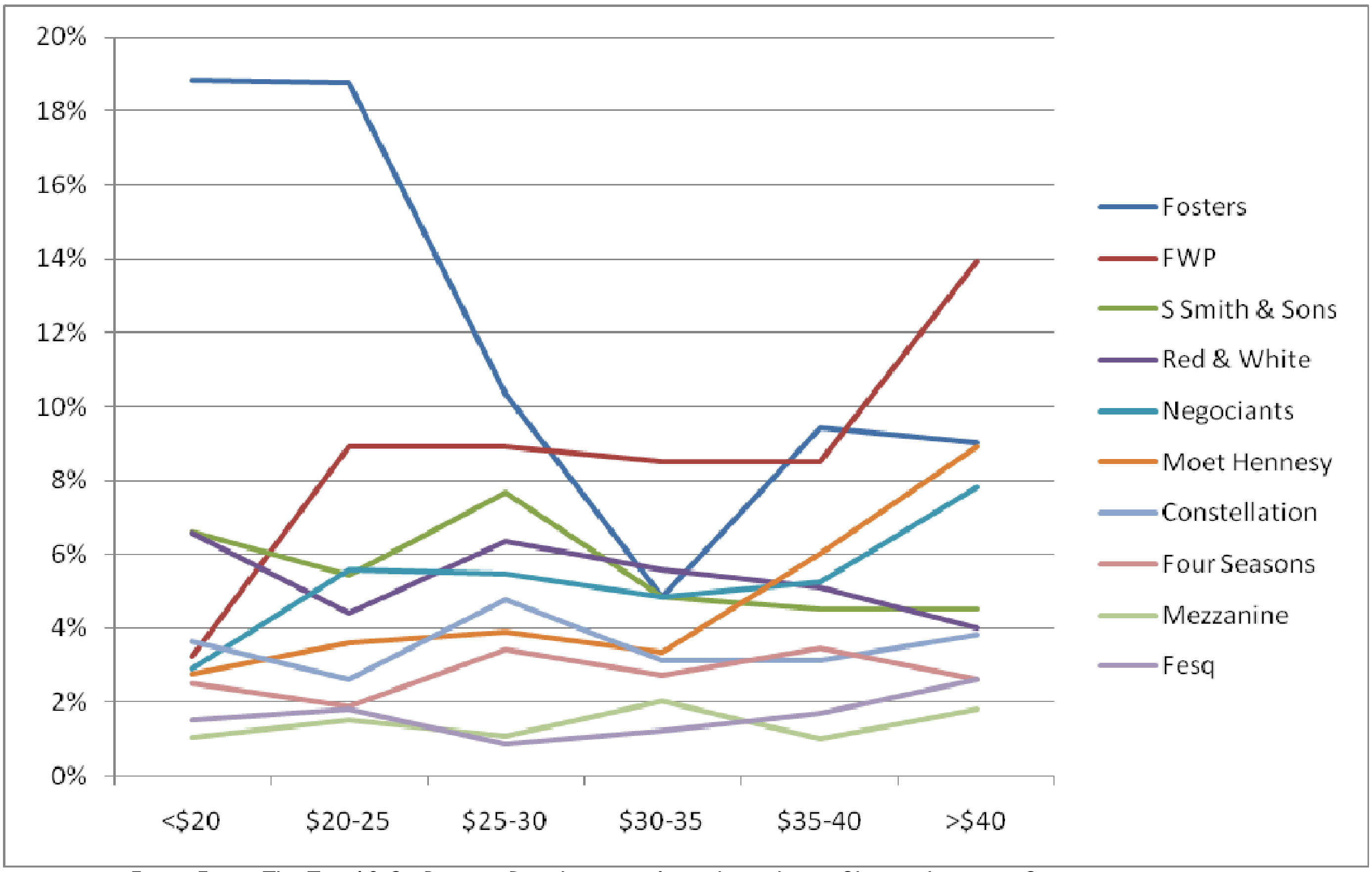

Figure Five – The Top 10 On-Premise Distributors in Australia – share of listings by price of main course category

As a supplier, what should you look for in terms of performance if you were choosing a distributor? For mine, you would want to see a relatively low level of participation in bottom end outlets, solid participation through the middle and over representation at the top, the logic being that good distribution in quality outlets at premium price points builds brands.

But does it? On the basis of this evidence at least, you would have to say "yes". Fine Wine Partners follow this pattern best (as you can see in figure five) and are the fastest growing (as you can see in figure four). Negotiants and Moet Hennesy also follow this classic luxury brand building model and have the deserved success. Red and White, on the other hand, should perhaps look to redirect resources into more premium placement. They might thereafter find themselves under less pressure to discount. Fosters (now Treasury Wine Estates) follow the pattern least well and are the fastest declining.

You can roughly equate each one of these food expenditure groups with the main wine consumer segments. (i.e. Below $25 with the Branded wine consumer, $25-30 the Aspirational consumer, $30-35 the wine Appreciator and above $35, Connoisseur).

As is normally the case, wine Appreciator type diners (and the restaurateurs that cater to them) are the least brand loyal. The Top 10 suppliers control only 40% of listings. As we move up in price to Connoisseur level and fine dining, brand loyalty actually increases. Nearly 60% of listings are controlled by the Top 10 suppliers. Trusted brands win on special occasions, it seems.

Treasury Wine Estates' issue, as was the case across every channel that they are in, was that they had forgotten how to have the conversation with discovery orientated trade and consumers, something they are now making a big effort to redress. Again, this was the result of how resources were being directed and you can see the impact very clearly.

Summing up, distribution quality matters. Don't be afraid to ask your distributor hard questions about just exactly what their strategy is (i.e. what are you going to sell, where are you going to sell it, at what price point and why?) and to see multiple examples of this strategy in action. Don't imagine for a second that management of the off-premise in this way is any less critical. At the end of the day, it's your brand that you're both trying to build together. The GFC and oversupply have changed nothing in terms of the importance of how your brand needs to be presented if it is to survive and grow profitably.

Note – The full "Wine On-Premise Australia 2010" report is available for purchase online. It includes a comprehensive analysis of who the best distributors are on a State by State basis as well as what the leading wine brands, styles and regions are. http://www.winebusinesssolutions.com.au/papers

The resounding success of Marlborough Sauvignon Blanc in Australia should be proof enough that the Aspirational wine drinker likes their wine with "a spoonful of sugar to help the medicine go down".

Yet when a forum was held in the Hunter Valley recently to discuss to possibility of producing and marketing a sweeter style of Semillon, the chief winemaker for one of the largest producers was heard to utter "over my dead body".

Similarly, I was at a luncheon recently where a well known wine writer and a wine educator were insisting that all Australian mainland Riesling needed was better "marketing". The seasoned Sauv Blanc drinker at the same table countered that there was no way in hell that they would <u>ever</u> get to like the taste of Australian dry white wine. Further, there remains a whole army of people out there who like the idea of wine but simply can't stand the taste of it at all. What are we doing for them?

It was with a fair amount of interest then that I read an article on wine style preferences published in the July issue of Meininger's Wine Business International.

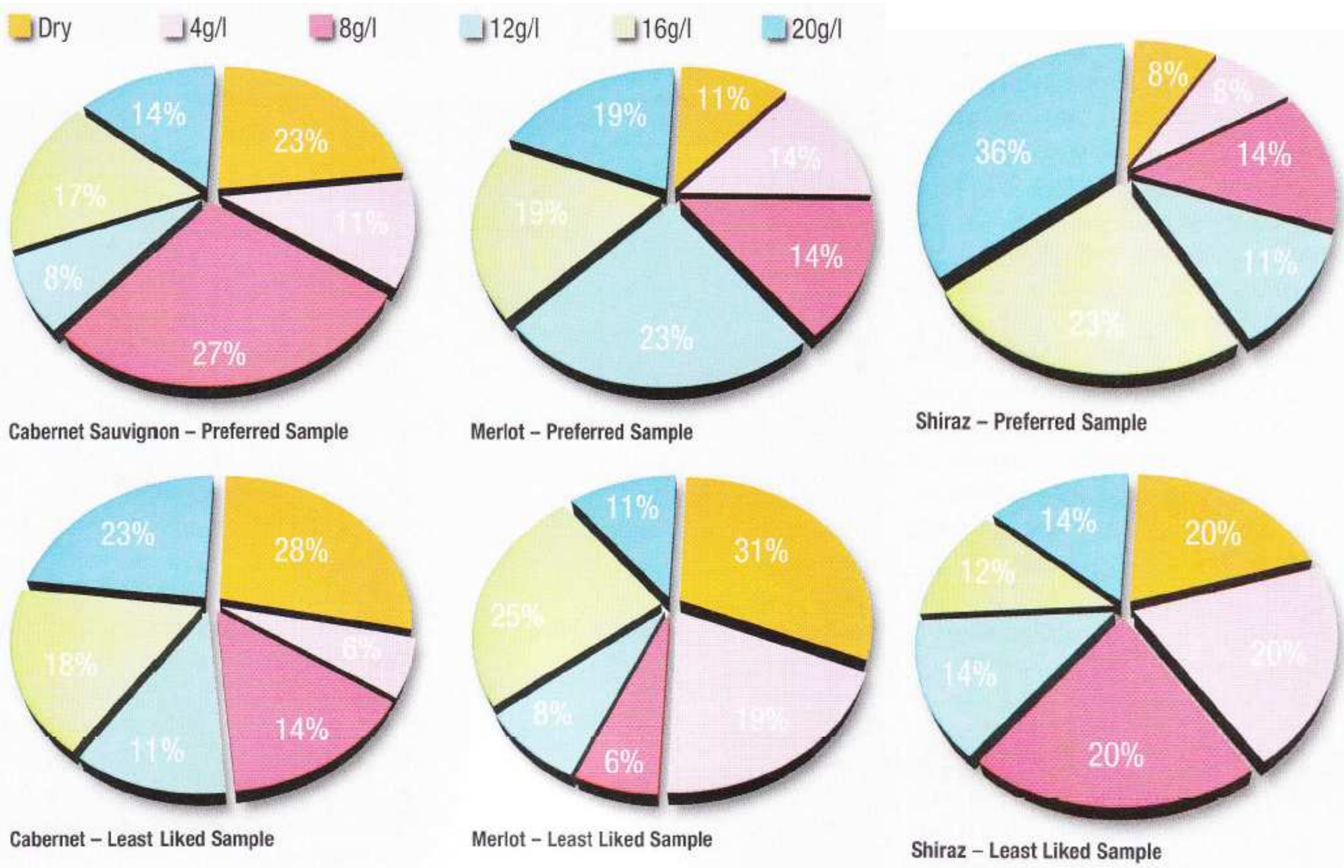

Figure Six – Consumer preference for sweetness.

The group of 108 tasters in their survey was made up of 74 female and 31 male employees of Constellation Brands in the UK, mostly (66%) aged between 18 and 35. Although the majority (67%) had attended a wine course and passed a basic wine exam, 73% of the group described themselves as having limited or medium wine knowledge. Only eight, (seven men and one woman) described themselves as experts - Fairly close to (if a little younger than) the profile of the average Aspirational wine drink, in other words.

Three reds wines had differing levels of residual sugar added right up to more that 20 grams per litre which is far more than you would normally see in any commercial winemaking.

The results? There were more people that liked the extremely sweet red wines, and objected to the dry ones than vice versa.

ANALYSIS OF FINAL RS LEVELS IN TOP 10 AUSTRALIAN BRANDS

Brand and Representative Sample	Alcohol – %	Producer or Distributor	Residual Sugar – g/l
Hardys Stamp Shiraz Cabernet '07	14.00	Constellation	8.1
Jacob's Creek Shiraz Cabernet '06	14.00	Orlando	4.9
Tesco Reserve Merlot '06	13.00	Australian Vintage	8.8
Wolf Blass Eaglehawk Cabernet Merlot '08	13.50	Fosters	10.6
Lindemans Bin 50 Shiraz '08	13.50	Fosters	11.5
Banrock Station Shiraz Mataro '08	14.00	Constellation	7.1
Rosemount Diamond Shiraz '06	13.50	Fosters	9.3
Yellow Tail Shiraz '08	13.50	Casella	12.4
McGuigan – Calloway Crossing Cabernet Shiraz '07	12.50	Australian Vintage	9.2
Oxford Landing Cabernet Shiraz '06	13.50	Yalumba	4.4

Figure Seven – Analysis of top 10 selling red wine in the UK.-Source Wine Business International

They are certainly not going to find a lot of satisfaction out of Europe. Most Appellations prohibit selling red wine with more than 4 grams per litre of residual sugar. Australian producers, on the other hand, commercialise most of their branded table wine with a decent wack of 'RS', [yellow tail] being the highest as you would expect and Jacobs Creek / Yalumba remaining the 'purists.'

Where is the real opportunity? Clearly you could make a lot of money by simply going out there with a very sweet and tasty wine. If you haven't the stomach for that (and practically every winemaker I speak to does not) then there is a significant alternative opportunity that very few people seem to be seeing.

What about wines that simply taste ‘good’? - wines with enough apparent sweet fruit flavour that everyone will enjoy drinking them including the most snobby wine critic. The Galvanised Wine group is nearly there with their Shiraz Viognier blend that they turn into the Black Chook, the Gaffer and other wines as are St Hallets with their Gamekeeper’s Shiraz Grenache blend but where I’m starting to see wine styles that really ‘sing this song’ is from the new clones of Sangiovese, Tempranillo and Barbera.

You can’t underestimate the impact of getting this right. I was at an Italian Varietal tasting the other evening. The audience of more than 50 were not winemakers or sales people so much as the staff and managers of the cellars doors of the region. Listening in to the conversation, most were debating whether the Italian version of each varietal was worse that the Australian. They hated them both equally but for different reasons. This continued through to the last wine which was a rich full and delicious locally grown Barbera. The woman next to me literally fell of her chair in relief.

This is the absurdity of the industry we are in. We’ve got a huge audience out there who love the world of wine, who like to drink it and lots of it and yet we refuse to give them what they want nearly all of the time.

A wine brand that delivers maximum drinking pleasure and at the same time respects the audience through providing them with a highest quality product that they pay good money for is the biggest single opportunity for the wine industry globally in the next ten years.

If you think that you understand this and you want to be part of the team that tackles the challenge, please be in touch…

Image Courtesy of Wines of South Africa

Vintages (the fine wine arm of the Liquor Control Board of Ontario) is one of the biggest buyers of wine on the planet. They also have near to perfect data as the LCBO is the exclusive supplier of alcohol in that market. So when they have their annual Trade Day, it's worth listening to what they have to say as the trends in their market are, more often than not, globally relevant.

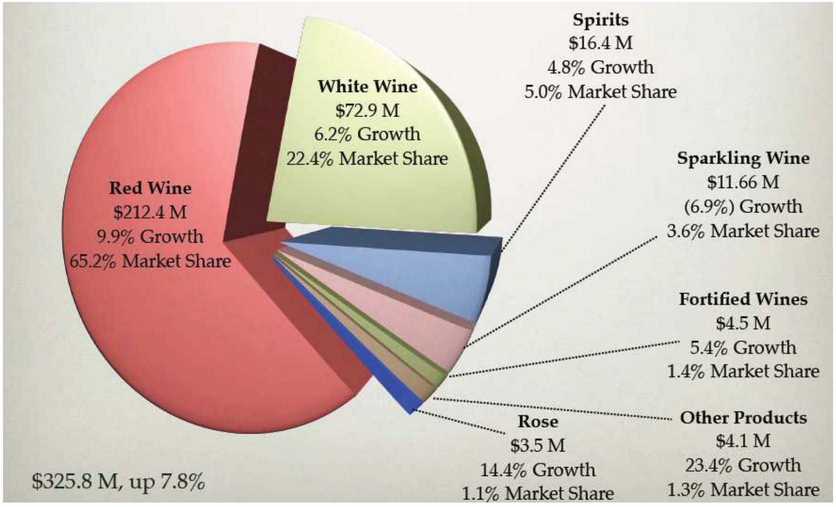

Figure Eight – Sales of wine by wine style through Vintages 2008/9

In the year to June 2009, red wine sales in Ontario grew just under 10%. During the same period, sales of Australian wine contracted by 10%. So something was definitely wrong there…

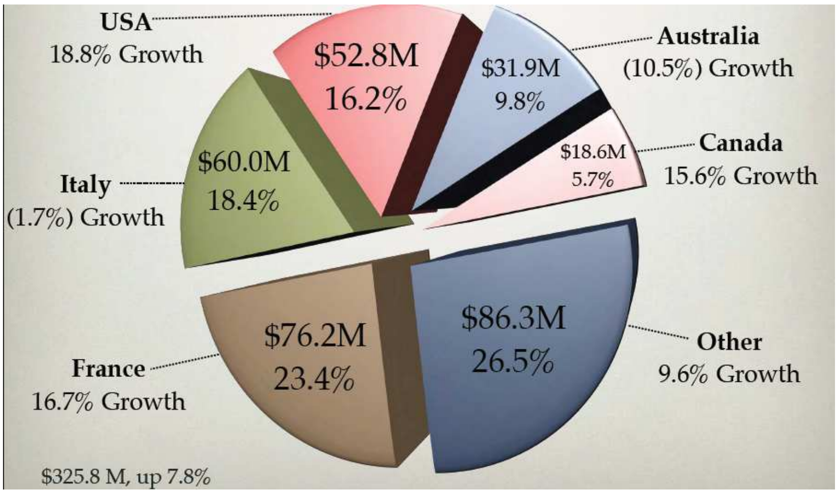

Figure Nine – Sales of wine through Vintages by country 2008/9

In order to find the source of the problem we had to dig deeper. It turns out that Shiraz sales were holding up nicely. So when clients return from overseas and talk about it being hard to sell Australian red wine other than Shiraz, they're not kidding. As with New Zealand and Sauvignon Blanc, there is a very strong potentially dangerous pigeon-holing affect taking place here.

Subset	2008-09 Net Sales	Change	Market Share
California Red - Cabernet Sauvignon	$22.4 M	26.0%	6.80%
Australia Red - Shiraz	$15.6 M	(0.8%)	4.75%
France Red - Bordeaux-Medoc	$11.7 M	37.1%	3.54%
Italy White - Pinot Grigio	$11.4 M	2.1%	3.47%
New Zealand White - Sauv. Blanc	$11.3 M	11.8%	3.44%
Champagne	$8.5 M	(3.7%)	2.59%
Subtotal	**$81.1 M**	**21.1%**	**24.59%**

Figure nine – Sales by most popular styles 2008/9

So if they are not drinking 'other Aussie red', what are they drinking?

Subset	2008-09 Net Sales	Change
Argentina Malbec	$7.1 M	128.6%
Veneto Ripasso	$6.6 M	40.2%
California Shiraz	$2.8 M	58.5%
South France Red	$2.7 M	43.5%
Ontario VQA Pinot Noir	$1.4 M	84.6%

Figure Ten – Sales of fastest growing red categories 2008/9

Analysis of the fastest growing red wine categories yields some interesting results. Argentinean Malbec, *(a similar style to Aus. Shiraz in many ways)*, Veneto Ripasso *(a style where flavour and concentration is enhanced by hanging grapes in the sun. Includes Valpolicella and Amarone*), Californian copies and the French original are the winners.

So it's not the style that they have fallen out of love with but Australia. They want the same thing but in a sexier package. And to be fair, they are also looking for a sharp price which Australia has struggled with due to exchange rates. During the next 12 months to June 2010, Australian red wine imports stabilised but Argentinean grew by 36%.   Will the Argentineans be able to sustain their position as the economy recovers? That depends, in my view, firstly on their quality but more so what Australia does next.

Australia is by far the best equipped supplier to step up to the challenge of producing more interesting, complex, elegant wines that remain full flavoured and unique to their origin. The communication and imagery to support that must resonate with the target audience. We'd, of course, be happy to help.

I've been kept very busy this winter working with 16 very different wine businesses across almost every major region of NSW. Each business received 10 hours of individual business mentoring under NSW Industry and Investment's Stepping Up program.

The experience has been both humbling and highly instructive. The feedback has been overwhelmingly positive and it is hugely rewarding to spend enough time with businesses so as to be able to observe positive change.

The West Australian Wine Industry Association has been very supportive this year and the workshop we have planned for the end of the month is now full.

As per details on our web site, well be running one in Melbourne on the 20th and 21st of September.

If you would like to know about a workshop in your region, please send us an email: peter@winebusinesssolutions.co.au

Click this link to download a brochure showing the program in outline

http://www.winebusinesssolutions.com.au/brochures/2010.pdf

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.