

Wine Business Solutions



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# **The Wine Paper 37**

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## ***Finding another gear***

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There can be few things more exciting than doing original research into what you and your clients are most interested in. You know that until that very second when the numbers reveal it, no one else on earth has access to that particular insight.

So it was with our annual [Direct to Customer benchmarking exercise](#). It was a battle, as these things tend to become after years of doing it, but we got there in the end with good participation across 22 regions of Australia, New Zealand and South Africa.

One of the more troubling revelations was that there were a number of previously fast growing businesses that have stalled in terms of being able to grow their Direct to Customer sales. This has to be a concern as, on average, wine businesses producing less than 50,000 cases across Australia, New Zealand, South Africa and the US now rely upon direct sales for around half their revenue and much more of their profits.

Indeed, we already had wind of this as a number of attendees of our [workshop program](#) this year reported that despite their best efforts, they just couldn't seem to increase direct sales. With declining email open rates and other aspects of direct wine marketing maturing - where to from here?

First things first. Customer acquisition. 20% of US wine businesses are responsible for 88% of wine sales according to Wine Direct who also own Vin65, the company supplying the web site backend to over 1000 US wine businesses. One of the two most important factors common to the top 20% was size of database.

That doesn't mean that you will become instantly more successful if you go out and acquire one. You still need your people to be engaged brand fans for the model to work. They need to have met you (plural) tried your wines and to believe in you. What it does underline is the critical importance of using every means possible to locate every last person who may have had, at some point, a positive brand experience.

That means tipping out all of your exportable files from everyone's address books, web applications that can capture this data, events attendee lists, lists of suppliers (who else has more reason to ingratiate themselves to you), and social media contacts into a central database. LinkedIn is brilliant for this but used by very few wineries. Most of the more sophisticated CRM programs will automate much of this process.

It means making contact capture an absolute priority for all of your customer facing staff.

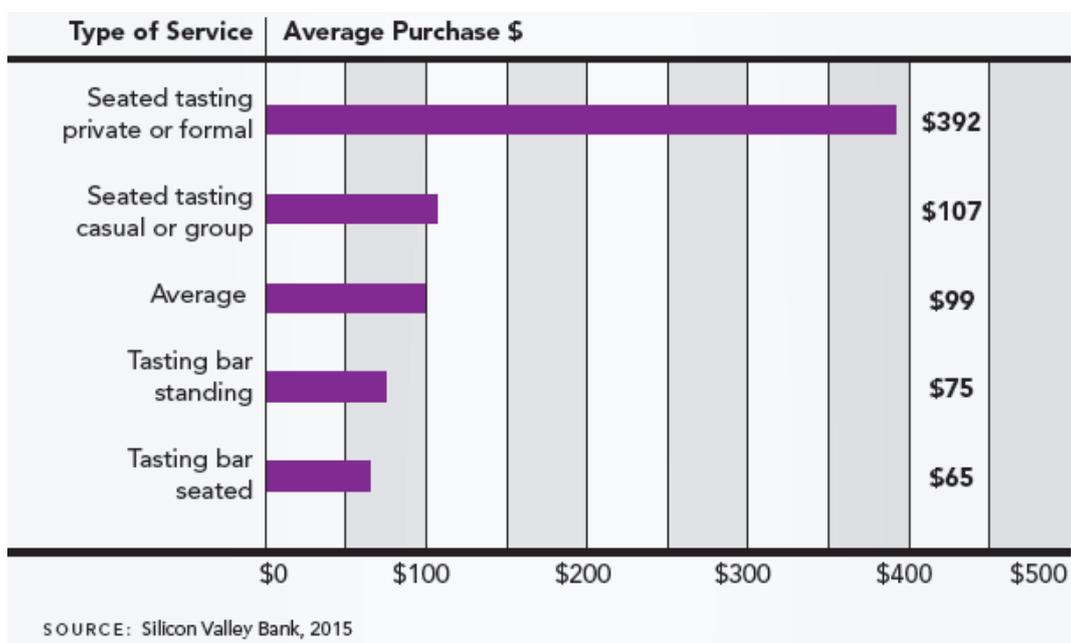
I still hear tales of people wasting time ‘cleaning’ databases when most good email marketing platforms will weed out suppressed emails and duplicates, in any case. Building is ten times more important than cleaning. Cleaning is not unimportant, however, as you want all emails to have the right salutation and to go to the right person with the right message at the right time. Phone contacts are also critical for telemarketing.

Building social media networks is another area where, according to our research, wineries have simply stopped. Quality engagement beats size of fan base any day but continuing to build your network is a must. This is a prime entry point to your brand. Try to have someone allocate, at a minimum, ten minutes a day or so to ‘finding more friends’. You’ll be surprised.

Search engine marketing was hardly used by wine businesses a year or so ago but this year’s benchmarking is showing that a lot more people are now aware of its power and the importance of it in terms of heading off online retailers who would otherwise poach your precious, potential customers.

There is a whole bag of tricks in terms of getting more people to your cellar door, which we provide as part of our consulting. What matters most is what happens when they are there. Our benchmarking agrees exactly with Silicon Valley Bank’s US research, being that sales at cellar door make up 56% of all direct sales and are growing at 19% per annum. That’s the pace that you need to aim to beat. Most of the rest of direct sales proceed from those visits or visits to events held by wineries. Web sales are still not significant.

We’ve seen overwhelming evidence this year that moving away from the ‘belly to the bar / bottles on the bench, pub-like tasting demonstration’ to a seated, pleasurable, educative, paid experience massively improves outcomes. If you are still in doubt about this, just take a look at this from Silicon Valley Bank’s latest Tasting Room survey.



I met with very heavy resistance in South Australia this year when I suggested, in a workshop, that the cellar door tasting experience can and needs to change. Meanwhile, McLaren Vale / Adelaide / Barossa continue to languish at the bottom of the pack in terms of average price, per bottle, of wine sold and average sales per customer, according to our benchmarking.

The feedback that I received was – “I don’t think Adelaide people would respond well to any kind of change to the very casual (free) wine tasting experience they now have”. My thought was that if you want to continue selling to 6% of the Australian population who are amongst the least likely to spend on wine and who won’t pay for tastings then perhaps you are correct. The whole point of running out-of-State advertising is to get interstate and international visitors to optimise their wine spend and ongoing sales, is it not?

Conversely, clients who have travelled to South Africa and seen what a quality tasting experience looks like and been to Northern California to see selling wine at its sharpest have had massive upturns in cellar door and club sales. [Check out this video](#) showing how the Crittendens now operate their tastings...

Quoting Lloyd Constantine, Sales and Marketing Manager for Vasse Felix – “the old wine tasting experience as we’ve done it for decades in Australian is dead”. Vasse Felix (Margaret River) have just renovated and now can seat literally hundreds in their cellar door, wine lounges and restaurant all of which provide unique tasting experiences. When I last visited on a Tuesday afternoon, there was not a spare seat in the house demonstrating just how much demand there is for this type of quality culinary entertainment.

Vasse Velix is part of a group called Ultimate Wine Experiences Australia ([UWEA](#)), which is about to be held out to the world as global best practice in international wine tourism at a conference in Virginia, USA. And deservedly so. The wineries and the experience they offer truly are world class. The collective product is a beautiful example of how to present your wine tourism experiences through a web site.

Yet separate research conducted by both Dr Johan Bruwer and Tourism Victoria shows that only around 6% of self-declared international wine and food tourists actually visit a winery in Australia (99% enjoyed wine in a restaurant presumably whilst reading their copy of the Qantas magazine and dreaming about visiting a winery...) If those international visitors were to venture forth, the chances that the wineries that they visited would be properly set up entertain them, subscribe them to their database and continue to sell to them in their home markets would be next to nil.

Recently, a New Zealand client came up with a brilliant idea, I thought, a fine example of the much self-vaunted 'Kiwi ingenuity'. If he were to hold stock for an Australian winery, he could run fulfilment in NZ for orders from that winery's New Zealand customers. That Australian winery could return the favour, minimising costs for both sides.

When I put this to one very well known Australian winery in the most visited Australian wine region, the response I got was – “We don't get any Kiwis here do we? One a month perhaps?” True, Kiwis, despite being the largest visitor group to Australia, are amongst the least likely to visit an Australian winery (around 5% according to Tourism Australia compared to, say, 23% of Swiss visitors). But there is a reason for that.

Later, I read an article about a tourism business that is making an absolute 'motza' by taking groups from New Zealand corporates to Australia and entertaining them within one kilometre of the winery that claimed it had no Kiwi visitors.

Why was this an opportunity? Because when I discussed selling to corporates with the winemakers located around one of New Zealand's capitals, it was clear that they had never heard of this idea before.

Continuing the trans-Tasman ping-pong, the Australia based owner of one New Zealand wine business worked out that there was so much money in selling to corporates that he was prepared to give up his week nights and time with family to pursue it, despite being one of the richest guys in the wine industry.

The point is that we are only at the very start of realising the massive sales potential of wine tourism and we need to be properly organised to take advantage. Seeing those opportunities requires getting out and visiting other regions and countries. A tough job but someone must do it. Seeing really is believing.

What is global best practice in this area? What are the absolute best operators doing in South Africa that I haven't seen anywhere else?

They start by selling to tour operators in inbound markets such as the UK, Germany and Holland. They create, 'productise' and sell an experience. In some cases, tour operators will even pay my clients to entertain their customers (sort of like Tom Sawyer getting his friends to paint his fence).

They form full partnerships with restaurants and accommodation so as to control the visitor experience from end to end. They, of course, look to deliver excellence at cellar door. They continue to sell direct to customers using online shops and fulfilment operations based in international markets. They have separate shops on their web site and tailored communication strategies for each market.

Now it is true that South Africans are unfairly advantaged in that there are more expatriates living in Europe looking to make this type of business work than there are, perhaps, Australians and Kiwis. But there is no rational reason why these companies shouldn't want to also do fulfilment for suppliers from other countries.

Being able to do fulfilment in the US is the real challenge. Negotiations are taking place right now to allow Importers to sell direct just as US wineries can.

I was recently told by the head of one National organisation that she saw no role for herself and her organisation where direct to customer sales are concerned in the US. I would strongly suggest that unless international wine businesses can sell direct and are holding large scale consumer events that building a premium brand in that or any other market will soon be impossible, such is the efficacy of local wineries in relation to tying up high end wine buyers.

Our [On-Premise research](#) clearly shows the impact that these large-scale consumer events and cellar door marketing are having upon wine list selection choices in the Eastern States of Australia, for example. Suddenly South Australia, Western Australia and New Zealand are finding it much harder to get onto wine lists in Sydney and Melbourne.

The New Zealand national organisation is aware of the issue but doing something about it is harder than it is for Australian States who perhaps don't see the issue yet. South Australian wines, for example, continue to sell well in retail, partly as a result (ironically) of all the wine and food tourism advertising that the Barossa does. But trouble is on its way unless South and West Australia get their act together in relation to events.

Your next question must then surely be – “Just how well do these sorts of ideas and practices transplant across international markets?”

Marc Dobson and Larry Jacobs moved to Australia from South Africa in 1997 and bought the [Hahndorf Hill Winery](#) in the Adelaide Hills. Larry was the founder of the much-acclaimed Mulderbosch winery in South Africa but was little known in Australia. They quickly built a reputation as one of Australia's best Cool Climate producers pioneering Austrian varietals in Australia. But that's not what made them famous...

They negotiated exclusive distribution rights for 'the world's best chocolate' and (here's the clever bit) they don't sell it. You must go to the winery to have the experience. This was included in CNN's 'Top 10 global adventures for chocoholics'. It ranks in the 'Top 10 food and wine touring options' of South Australia. Hahndorf Hill was inducted into the Regional Tourism Hall of Fame after winning Best Tourism Winery in the Adelaide Hills for three consecutive years. They're no longer allowed to compete.

So it can be that simple. I've seen a lot of Barolo sold with a sharp knife and a roll of truffle salami...

Competition is at a level, at this point, where even simple experiences like a walk in the vineyard can be frighteningly effective. Sparky Marquis and his team at the [Mollydooker](#) got to \$1 Million per annum in sales at the winery before even creating a proper cellar door.

Going forward however, the secret is going to be giving people an authentic experience that simply is the best of its kind on earth. It's easier to do than you might think. Right now, I'm thinking about all of those people in Central Otago with their world beating 'wild larder' and how few of them, other than perhaps Amisfield, have done anything with that prize asset. The potential to package up 'adventures' for tourists is massive.

Wherever you are, there is something that is familiar to you but tantalisingly exotic for anyone from anywhere else. That is where the magic lies.

Someone who has taken an idea and made it into the best on the planet is Caroline Martin of [Creation Wines](#), a regular attendee of our workshops. You have to imagine that they're located an hour and half from Cape Town up a gravel road that has a ten minute changeover traffic light, in a country where you don't necessarily feel that safe as that transpires...



When you arrive, you see a car park that is always full, seven days of the week. As you will see on their web page, it is wine and food pairing executed at a hitherto unseen level that draws people in. There are options for children. There are options for teetotalers. It's all educational, it's all delicious and it's all fun.

One of the little known advantages that Napa producers enjoy, that helps to make them the highest net sale per visitor region in the world, came to them by chance. The law in some counties requires wineries to receive visitors by appointment only.

The originally unintended effect has been that by having to book, customers qualify themselves. According to Silicon Valley Bank, the average sale to a customer received by appointment in the US is \$235. Sales to the general public yield, on average, yield just \$70. Our own benchmarking backs this up. Producers who receive customers personally and attend to them privately, sell cases not bottles. The French have known this for a very long time, of course, much to the annoyance of errant antipodeans, who drop in on them looking to taste spontaneously...

When I talk about capacity management to South Australian clients, in particular, I'm generally met with blank faces. "What? – Do you mean that we will have to work harder than we are already?"

Someone will have to work harder but that is the point. By creating saleable, commissionable, tourism products, bookings can be made, visits can be planned, customers can be better managed, sales can be optimised, periods that were considered down times can be busy but, most importantly, staff can be scheduled and allocated exactly. Their sales efficacy can be measured more accurately and their rewards fine-tuned.



If I'm asked to give a presentation at a major wine event somewhere across the globe, more often than not it's about innovation. I truly believe that there has never been a more exciting time. As wineries get to fully understand what delivering a unique experience at cellar door means, they will discover that there is now more licence to innovate the product offer that goes along with it than perhaps there has ever been.



I love, for example, that Voyager Estate sell grape juice. In much the same way that Creation does children's tasting, it expands the relevance of the brand and winery experience. It's undoubtedly a high margin product that serves as a reminder of the visit that goes beyond wine in much the same way that Chateau Mont Redon sells grape confit (jam). You wouldn't necessarily turn either into a commercial product for outside of the cellar door but both work brilliantly in terms of making the brand and experience more memorable.

What about the wine itself? Who is doing the most interesting work there? This might seem a tough one. If it is a grape variety, winemaking method or organic / biodynamic / natural winemaking practice - hasn't it all been done already?

Certainly, if you look at what winemakers across the lesser States of the US winemaking spectrum are doing, there is very little of the above that someone is not trying to do in those emerging wine regions.

My view however, is that we haven't even scratched the surface yet. Some time back, I sent a sample of a beautifully packaged 'Coffee Pinotage' product to an Australian importer. They were already acting as agent for some of the producer's other brands.

There is barely a winery in South Africa that is not producing a toffee / chocolate / mocha / coffee something. Wines with known, liked and easily identified flavour profiles can be easily communicated. This explains most of the success of Marlborough Sauvignon Blanc.



Now I don't mind if people try something and hate it. I understand if they try it, like it and say that it's not for them. The importer's staff would not even open the bottle. It's that sort of closed mindedness that really gets me excited because then, you have some real possibility to disrupt the market. And that particular importer certainly has been disrupted.



A number of years passed and I wondered if anyone in Australia would ever really get it. Imagine how thrilled I was when a bottle of Grosset Apiana turned up in the mail, courtesy of their Sydney distributor. As Jeffery is amongst the very best producers in the country, I didn't even bother to read the story, I just opened it. And then Wham! Pow! Bees wax and honey. A beautifully crafted blended white wine designed to have a specific aroma and flavour profile. A homage to the bee. Fantastic.

Grosset 45 is essentially an eau di vie. Brilliantly timed to coincide with top end spirits taking off globally, once again, it provides fans with another lens through which to view the Grosset brand.

These were simply ideas lying dormant. They just needed someone to act. Jeffery describes himself as progressive not entrepreneurial. He is spot on and he needs to be. In a fast changing world I constantly see brands rapidly losing relevance. The good news is, change has rarely been easier or more fun.

## 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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