

Wine Business Solutions



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# The Wine Paper 38

**January 2016**

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## ***Wine Visionaries***

This time, we discuss the highlights from the Wine Vision conference held recently in Bilbao, Spain

I recently attended the world's premier wine future strategy event – 'Wine Vision' – held in Bilbao, Spain. I thought that perhaps the best thing that I could do would be to take the essence of the presentations, try and add some value to them so that you, in turn, can take these ideas to your team and, hopefully, evolve them into something truly useful. That, after all, is how consulting ought to work.

For a start, any event needs a good MC. As you know, most wine industry event organisers struggle to find someone who can 'read the cue cards'. For this job, Doug Frost is your man. One of only four MWs who is also a Master Sommelier, there is little to do with wine that gets past Doug. Not only is he charming and witty when doing the intros, he knows exactly when to dive in – to clarify, to add more depth and, most importantly, to challenge when a statement has not been thought about hard enough. This is an approach that I see a number of MWs using. It's a good one. No one should be allowed to get away with intellectual lethargy when it comes to strategic decision making. Peoples' livelihoods are at stake.

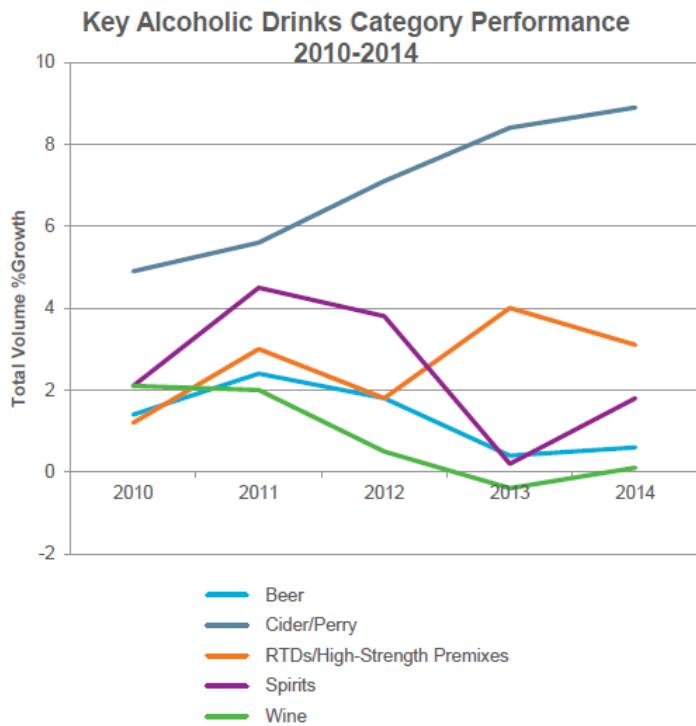
Polished, erudite and best of all, brief, Andrew Reed (part of the dynasty that founded William Reed Publishing Group, who own Harpers) is someone who you could happily listen to all morning but who understands that if people have flown in from all over the world to hear speakers present, then let them get on with it.

You must not then, whatever you do, hand the baton over to a local government official who proceeds to ramble on in a language less than 20% of the audience understand, giving no consideration to the time allotted, the conference organisers or the attendees, using it as a TV opportunity. No. Do not do that...

Spiros Malandrakis, Senior Alcohol Analyst at Euromonitor then gave us a fantastic umbrella view of the wine industry. The trouble with doing a global summary like this, however, is that it requires the maximum of work to get the data in, often with very little great insight coming out the other end. Trends tend to get averaged out the more data you throw at them and if shown over time, clarity can be even more illusory.

Thankfully, a few things really did stand out.

- I. Since the GFC, wine has been the least innovated alcoholic drinks category and, consequently, the worst performing globally. The graph on the following page highlights, to me at least, that doing anything to make wine more interesting is better than doing nothing. All other categories have had their own 'craft and authenticity led renaissance' whilst wine, with a far better story to tell, has largely sat and watched, orange wine and a few other non-sustainable novelties notwithstanding.



There are massive opportunities begging. Where will they spring from in 2016? That gets partially answered by the question - “What are the hottest trends in food right now?” One of the biggest is ‘Fire’. You’ve seen the TV show and bought the book. Up and coming ‘rock star’ winemaker (more on that later) Bruce Dukes has won so many IWC Trophies that they gave him a free ticket. He and I went to an ‘asador’ in the beautiful foothills close to Bilbao where every item on the Michelin starred degustation menu was subtly aromatised with various wood smokes. Tough job, I know...

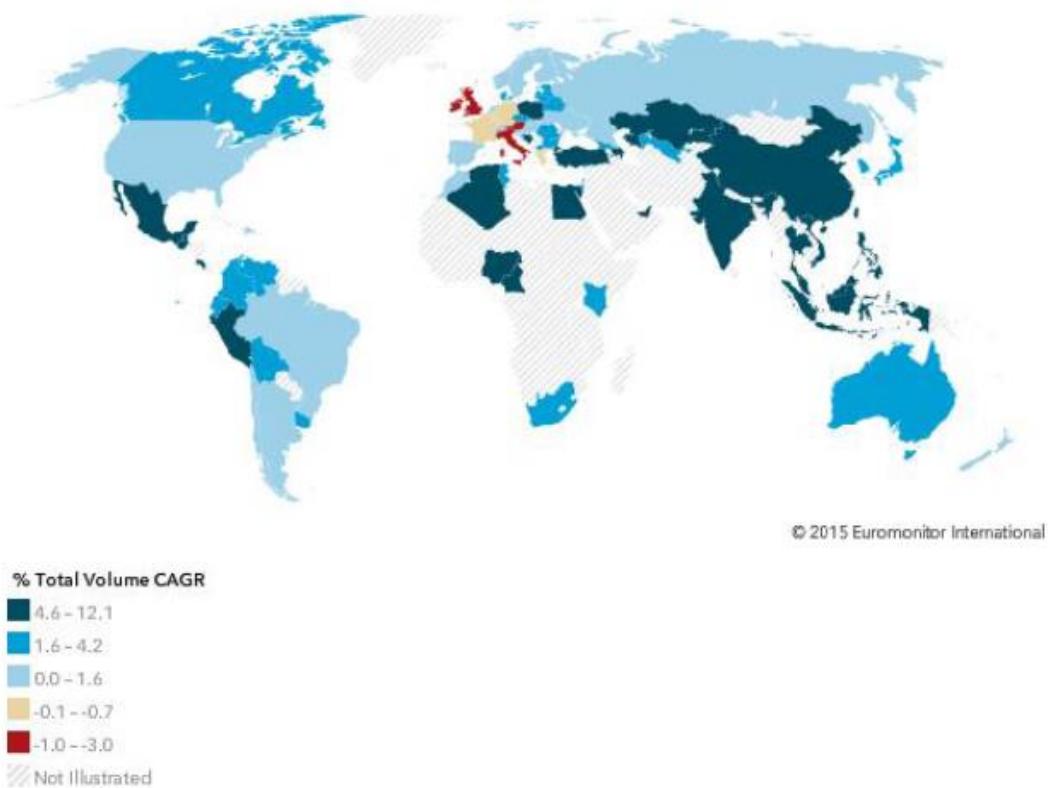


Could this be the opportunity South African and South Australian wineries have been waiting for? Not to make smoky and/or over-wooded wines again, God forbid, but to think about becoming the perfect accompaniment for ever more elegant, complex food styles?

Our [Wine On-Premise UK 2015](#) research shows that listings of US wines on UK wine lists have doubled in the last year. This is on the back of the ‘Hipster’ food craze that is largely driven by the global discovery that America actually does have a cuisine. Imagine if the Americans had chased this opportunity rather than having it gifted to them by chance. Again meat, smoke and fire are a big part of the Hipster food movement that has created a boom for bourbon, whiskey, cocktails etc. but has yet to be grasped by wine. Fire is just one element, of course. Where you can take this is limitless.

2. It’s happening in the middle. If you’ve read David Landes’ “The Wealth and Poverty of Nations” you would be familiar with the British colonialists’ idea that nothing happens in ‘the middle’, enterprise being thought to be the sole domain of ‘cold blooded people in cold countries’. Not where wine is concerned. Not now. Almost all of the high potential growth countries for wine are in the tropics. Time to pack the Bermuda shorts and the open necked shirt for your next business trip?

STILL LIGHT GRAPE WINE: MAPPING THE FUTURE



3. Being in a boom market is better than being in a bust one. Sounds trite but it was shocking to see, to me at least, just how extremely different Greece and China have performed since the GFC. You can really see the good sense of focusing on the premium part of the Chinese market. You can also see that China has followed the normal pattern of a boom market despite austerity measures. The same has been true of the US post GFC. There are many more developments that will occur in China that are predictable despite some doing their best to paint China as entirely its own unpredictable thing.

**Greece: Red Wine % Retail Volume Sales by Price Band 2009/2014**

% volume	2009	2014
Under €3.50	3.00	9.00
€3.51-5.50	6.50	14.30
€5.51-6.50	7.00	15.50
€6.51-8.00	20.00	18.50
€8.01-9.40	23.00	18.20
€9.41-11.00	23.00	14.50
€11.01 and above	17.50	10.00

**China: Red Wine % Retail Volume Sales by Price Band 2009/2014**

% volume	2009	2014
Under CNY19.99	25.00	8.00
CNY20.00-29.99	30.00	25.00
CNY30.00-49.99	30.00	32.00
CNY50.00-59.99	10.50	22.00
CNY60.00-89.99	2.50	7.00
CNY90.00 and above	2.00	6.00

Source – Euromonitor International

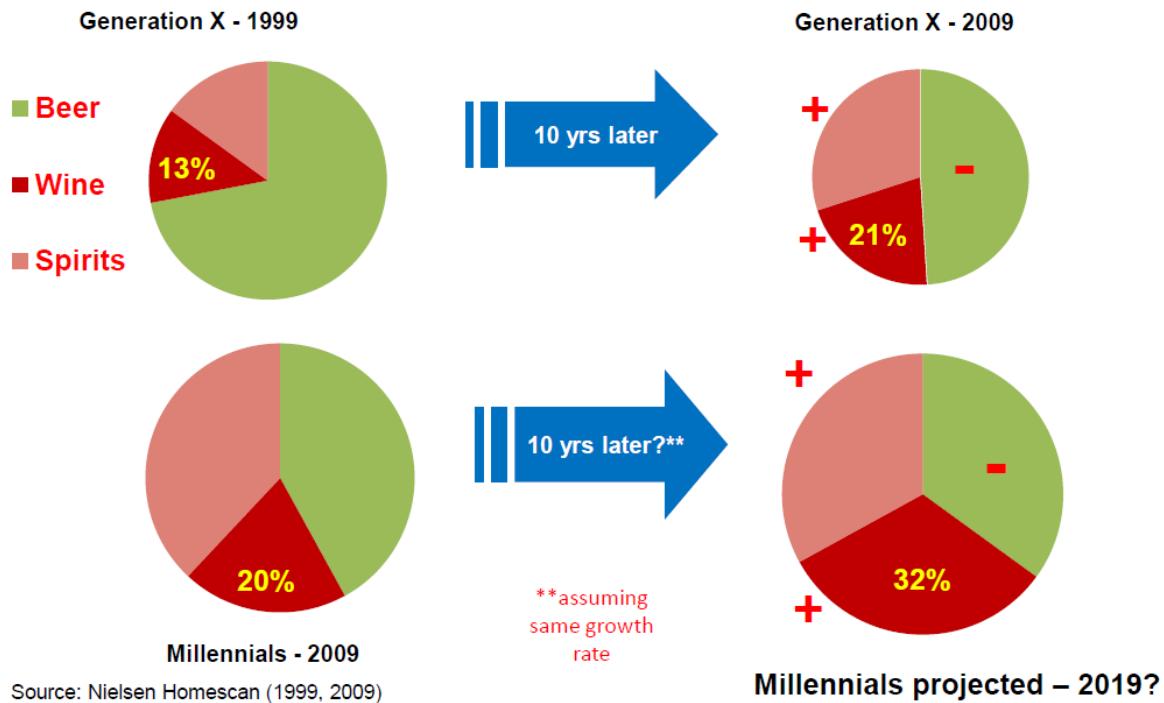
Next we had Giovanni Geddes da Filicaja, CEO of Ornellaia and Masseto, give us an absolutely beguiling presentation on how to build a luxury brand. Once you untangled the ‘mind pretzel’ that was this Italian man talking to you in a broad ultra-upper-class English accent in Spain, you couldn’t help but be charmed and to see where success for this business seeded from.

## ORNELLAIA VENDEMMIA D'ARTISTA



The real standout point for me was that they never advertise. Everything is done with PR, mostly at the property. In our workshops, I always reference how when Freixenet analysed all of its marketing activities undertaken all over the world (and we did all of them, believe me) the activity with the best return on investment was ‘Lunch’. So it is for Ornellaia.

Next, Wine Opinions’ Christian Miller talked about some exciting developments in the US market. Whilst the rest of us get more than a little tired of hearing about the ‘Millennial Generation’ and wonder if all that US research money will ever get invested into doing some more sophisticated analysis, there is good reason for excitement. Take a look at this.



Then we had the wonderful Lenz Moser tell us about Changyu spending \$US900 Million on wineries, just to take us all off into fantasy land for a bit. And some still think there's not opportunity in China?



Felicity Carter (Editor of Meininger's) finished off the morning with some brilliant insights into doing international business. Europeans grow up doing business in different languages with people from very different cultures. She highlighted how so often Australian winemakers, in particular, get it wrong by expecting people to take them as they are. The best sales people possess great self-insight. You can't have that unless you first have insight into the people you're interacting with. That requires a lot of hard work - study of language, culture, tradition etc. A client once got an extra container order, he told me, because of some obtuse fact he knew about the Chinese buyers home province. But it must go deeper.

Felicity also made the important point that different cultures have very different attitudes to change. In Australian culture, for example, as a young country we expect things to always be changing and for the better. In East Germany, by contrast, an expressed felt need for change might be seen as an admission that you've messed something up that you should have gotten right in the first place!

After lunch it was DtC time. Miryam Chae is without doubt the top performer in the US, running all of Constellation's operations. You've seen me expand upon just how well Robert Mondavi, for example, do all of this in previous newsletters.

My presentation was about the great, glaring opportunity for European wineries to dramatically increase profitability by sorting out their DtC sales strategy. We acquired our first Spanish clients as part of the trip. It will be wonderful to see how it all pans out. They've made a solid start already.

Next we had Javier R. de Galarreta, President and CEO of ARAEX Rioja Alavesa & Spanish Fine Wines, S.L. The company comprises the wineries of Rioja Alavesa, while Spanish Fine Wines is six wineries from other leading Spanish regions: Ribera del Duero, Rueda, Rías Baixas, Navarra and La Mancha.

It's a very interesting business model and one, I believe, that could work in a lot of countries. They pretty much run business operations, sales and marketing for the respective wineries but it doesn't stop there. They go back into the vineyard and are even developing their own quality charter for the Group.

The last session of day one was a panel hosted by Laura Price, Content Editor for The World's 50 Best Restaurants (who co-hosted the event) involving some of the Basque region's top restaurateurs. One of the key themes to come out of discussions was that, whilst restaurants always aim to source fresh and locally, it's not the first priority. That would be making sure that the customer experience is optimised. If local wineries are not up to that task, they can't expect to get listed. Winemakers have to think that in the On-Premise context, their product is just another 'sauce'. Those that really get that are bound to succeed.

Day Two kicked off at a scorching pace. Just as well Karissa Kruse, President of Sonoma County Winegrowers, is focused on the domestic market and sustainably. She would shred it like a school of piranhas if they ever let her loose on the rest of the world. I find it utterly inspiring to see what can be achieved when someone is completely focused on getting stuff done. All regions need to find themselves one of those.

Up next - Dominic Rivard, Chief Winemaker and Owner, WinePlanet Consulting. Fruit wines are coming, people. Dominic was brilliant to listen to as he had made just about every type that could be imagined.

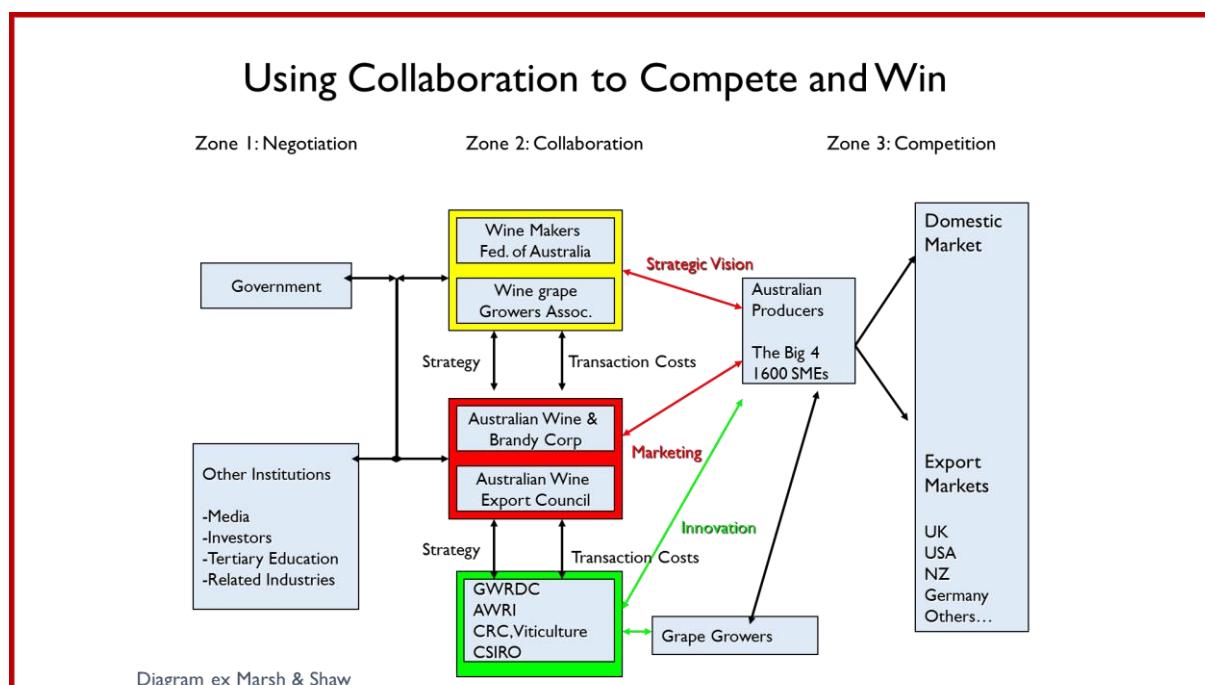
When they get the packaging and the marketing right, it's game on. I have been saying for over 20 years now that wine is vulnerable to any better idea in a 750ml bottle that can be shared at the table. It would seem that the quality of fruit wine is now at a level where this competition is about to become reality. The key for grape wine, of course, is to innovate faster and to be more interesting / relevant.

One of the world's leading experts on Social Media, Mark Shaw made the key observation that social media is not a substitute for other marketing activity. It's "as well as". That is why we always recommend in our workshops that small business owners make a list of all the things that they must do and prioritise them. Social media is important but it is not always the most important thing to be doing. Answering the digital 'telephone' (email, phone calls, social media enquiry) is massively more important than social media posting.

One of the highlights of the conference was the presentation by Taylors' MD, Adrian Bridge. In order for Wine Vision to make the claim of being world leading, it needs the gravitas of this type of Platinum Sponsor. It needs them sitting in the front row for the whole show and it needs them to stand up and say something important.

Adrian's presentation was centred around the idea of 'co-opetition'. That is, that it is much smarter to collaborate, as the Port people do, to grow the pie rather than to fight over market share. It's the sort of far sighted, broad minded approach that all regions need and like so many great ideas, it's not new.

A couple of Australia academics by the names of Shaw and Marsh were talking about this in the late 1990s. I then took this idea and presented at a global manufacturing conference held at Lake Como, Italy. (Academics really do organise the best junkets). I, as many were at the time, was holding the Australian industry out as a model to the rest of the world. We all know what happened next.



Australia developed the world's first global strategy as a wine producing nation and everybody then soon followed. Because Australia got it wrong, strategy was given a black eye. What happened was that Australia formulated strategy using the rear view mirror. It geared its entire industry around an opportunity that the world was and always is evolving away from. Just look at this Nielsen data taken from this morning's Silicon Valley Bank blog.

52 WEEKS ENDING 12/05/15	\$ Vol	\$ Vol % Chg vs YA	Table Wine		Case Vol	Case Vol % Chg vs YA	Table Wine Case Share
			\$ Share	Case Vol			
TOTAL TABLE WINE	13,226,095,260	4.9	100.0	159,757,531	1.7	100.0	
TTL GLOBAL TBL BE 0-2.99	828,850,252	(1.9)	6.3	28,594,622	(4.9)	17.9	
TTL GLOBAL TBL BE 3-5.99	4,041,378,691	0.5	30.6	68,618,309	0.5	43.0	
TTL GLOBAL TBL BE 6-8.99	1,681,255,025	(1.7)	12.7	18,602,352	(1.7)	11.6	
TTL GLOBAL TBL BE 9-11.99	3,049,547,575	8.2	23.1	25,347,167	8.1	15.9	
TTL GLOBAL TBL BE 12-14.99	1,773,554,251	12.8	13.4	11,277,079	12.7	7.1	
TTL GLOBAL TBL BE 15-19.99	991,226,591	15.9	7.5	4,759,017	14.5	3.0	
TTL GLOBAL TBL BE >20	853,289,202	9.5	6.5	2,507,566	9.1	1.6	

Port, Australia and everyone else needs to develop strategy based upon the future for wine – to have ‘wine vision’, in other words. Luckily, after 30 years of watching it, it’s not so hard to see where wine has been, where it is now and what it ultimately can be, given a little ‘co-opetition’ and guidance.

Last and absolutely not least, one of the world’s best ‘wine thinkers’ Mike Ratcliff of South Africa’s Warrick Estate asked some great questions, questions being sometimes more useful than answers.

He asked – “why are there not more rock stars and why is sex strangely absent from the marketing of wine”. Sex is absolutely a part of selling sparkling wine. We watch our exports grow from 3 to 9 million cases in just 5 years off the back of that research discovery when I was at Freixenet. For that all important Aspirational wine drinker, however, the same research suggests that table wine is more ‘tranquilliser’ than the ‘source of excitement’ - Something to have in the bath at the end of a hard day. And who can forget the billionaire Chinese dildo manufacturer in the film ‘Red Obsession’ saying that when he was young, he preferred sex but now he prefers wine? Wine, unlike social media it seems, is ‘instead of’, rather than ‘as well as’ where sex is concerned.

Then he asked - how can we do sex cheaply? Now we’re getting into really dangerous territory... There is an answer, though. When at Freixenet, we were the first corporate to sponsor the Gay and Lesbian Mardi Gras. In those times, 600,000 people would turn out to watch and many of those would shop Oxford Street in the month leading up to the big event. I approached shop owners and promised them that if they were to completely theme out their windows in black and gold, I would give them not one but two bottles of Cordon Negro. So for the price of two cases of Cava, we blanket merchandised Paddington. Moet did the same with David Jones stores nationally in Australian this Christmas. It may have cost them slightly more.

# 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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