

Wine Business Solutions



The Wine Paper 51

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The Key to Success

Page 3 – Working with Success

Page 4 – Preparation

Page 5 – Planning

Page 7 – Profitability

Page 8 – Patience

Page 9 – People

Page 10 – The Top Ten Tips for Building a Better Wine Business

No one gets into the wine industry to make money. Or so they say. We do this because we love it, right? Doing something you love whilst being financially secure, however, tends to be more fun than worrying about the bank foreclosing. So, what is it that makes a wine business successful? And what is success actually?

Like you, we do what we do because we love it. When I run a workshop, for example, it's about helping those that need it most, very much more so than it is about making money.

It is one of the grand ironies of consulting, however, that it is not usually those companies that put their hand up for help but the very best in the business who end up attending.

I'm always impressed that attendees from these businesses come with an open heart, an open mind, a willingness to learn and, most importantly, a willingness to share what they have learnt. If we are to make a list of observable success factors, in my book, that would be number one.

We are in the privileged position of working intensively with the owners and management of these highly successful companies in these workshops, through consulting assignments and as part of their strategic planning process.

This enables us to observe the best of the best in operation and to learn about what the common success factors are.

We then track their progress and success milestones via [our research](#).

The same holds for the distributor companies who buy our research, who then leverage our databases and get us involved in their planning. They tend to be the most successful as well.

Now, one must be very careful not to be concocting an American style 'self-help cookbook' summary here.

We've all witnessed the folly of the whole 'In Search of Excellence / From Good to Great' style business books where companies were held out as the model and, 10 years later, often failed or have been superseded.

I'll therefore not hold out individual businesses as models but, rather, discuss enduring characteristics of the most successful that set them apart from other businesses.

“Give me six hours to chop down a tree and I will spend the first four sharpening the axe”. Abraham Lincoln. To identify those breakthrough opportunities, you’ve got to invest heavily in sharpening your intellect. That means reading, tasting, travelling, observing and swapping ideas to the maximum extent that you can.

Thinking about our most successful clients, a number have been contract winemakers or grower liaison managers for years before taking on their own venture. That gave them the advantage of knowing where all of the fruit in their respective State, Province or even country comes from, how it presents under different conditions and where quality ultimately lies. There are consultants out there with this background.

There are parallel opportunities that stem from simply tasting enough wine to truly understand what wine is. For MWs, it’s a requirement. I’ve also seen producers who simply started out working as sommeliers or retail floor staff who then walk into a wine producing region, see immediately what the fundamental mistakes are that are tied to tradition rather than driven by a clear vision of what quality wine actually is, and who then make the wine those producers should have been making all along, thereby beating all.

Quality wine is not about any country’s show system. God knows that can steer you down the wrong path. It’s not determined by individual critics. We’ve all seen the damage following one man’s voice can do. Quality wine is art and it takes a lot of hard work to become good at seeing it. Developing the ability to break through is about recognising greatness. It’s about seeing something new rather than something that looks like something else that someone else has determined to be great at some other point in the past.

For distributors, it’s about portfolio construction. It’s about knowing who the best producers / strongest brands are from each region. They’re not always one and the same but as you go up in price, they tend to be. [Our research](#) makes it crystal clear that a Strong Region + Strong Wine Idea + Strong Brand + Strong Distributor = The Winner.

And yet so many distributors fail because they sit back and wait for people to approach them rather than proactively working out who those brand owners are, who is under-represented and targeting them.

I’ve met winery export managers who don’t know what Meiningers is, consultants who claim that their approach is research driven who don’t know who IRI and Wine Intelligence are (not that I’m endorsing what they do necessarily), cellar door and club managers who’ve never heard of Silicon Valley Bank, owners of large wine companies who only drink their perceived immediate competitors wine and their own. And the list goes on. Read, taste, travel, observe, swap ideas – It’s a hard life but the rewards are well worth it.

When I started this business, I thought planning was all that I would be doing. Planning was my education. Planning is what I had been trained for. Strategic Planning was what I taught for years as part of the MBA program in one of Australia's largest universities. I've seen more business plans for urban cellar doors and online wine businesses (that were never meant to be followed through upon) than anyone ever should.

I was more than a bit surprised to find that business plans were practically non-existent in the wine industry. But rather than do what so many would-be consultants do and complain about that, we've just gotten on with it. I do think that it is important, however, to get to the bottom of why this is so.

Firstly, I believe that there has been a complete high jacking of the term 'Strategic Planning' by many larger consulting firms. Always when I'm working with regional or national associations, for example, they send to me a pile of *.pdfs prepared by consultants from outside the industry. Always these documents are hundreds of pages long. Always they are full of good common-sense stuff like "you need better roads, an airport, hotels and restaurants" that the client already knows. Always there is much that confuses compliance with strategy (e.g. "you've got to include and respect your staff, stakeholders and the environment etc" and again, the client already knows this. Never is there clear direction about what to actually do.

I believe that strategic planning is about one thing and one thing only – clarity about what to do. I believe that if I have any talent at all, it is that after one third of a century of watching wine businesses, I arrive with a clear idea of what any wine business anywhere should be doing. What any client chooses to do with those ideas doesn't matter. Either they take what I say on board, in full or in part, or they push back against my proposals and do something else after considering all the issues raised. Both are great results in my book.

Then there is that planning, itself, is under attack. There are two key reasons for that. One is that many of the most successful in the 21st century have been tech businesses, disruptors who are fast growing and evolving. Conventional business planning doesn't serve any purpose for these businesses, other than giving their, not so smart, funders a false sense of security. The smart ones know the risk they take and that, in order for these businesses to succeed, they are necessarily constantly failing, changing and evolving.

The second is that businesses often fail despite having comprehensive plans. Planning and doing are very different things. It is also critical not to expect that the plan itself will somehow do the ongoing job of adapting strategy for you. For example, when Australia ran off the rails in the early 2000s many people were quick to blame the Strategic Plan behind all the success in the 1990s. The plan was never at fault. The inability to see the need to alter the plan was.

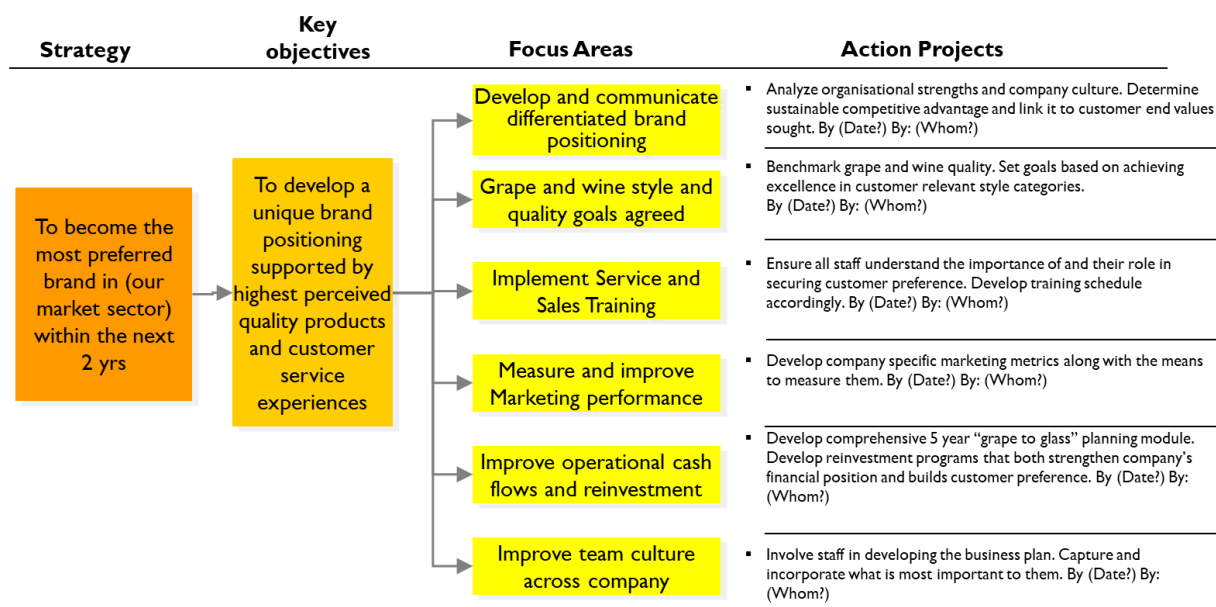
Every wine business out there needs a plan. You can trust me on that. You need to be able to explain in simple terms to your spouse, your children, your employees, your customers and your stakeholders;

- Why you exist and where you're going (your vision and mission)
- Why you matter and what makes you different / valuable (your customer value proposition)
- How we all treat one another, our land, our customers, our stakeholders (your values)
- Who your brand is for and what it means to them (your brand's customer 'bullseye' as it were)
- What your pricing, promotion, product, sales channel and distribution strategies are (via your sales and marketing plan)
- What your exit plan is. (Always the most delicate of conversations but essential none the less).

Let's be clear before we go on. Against what I said I originally thought I would be doing, I'm not a believer in consultants writing plans. Whilst we are always happy to facilitate the process, unless the client owns the plan and the process, no good is likely to come.

Then there is the critical bit. The piece linking clarity of vision in terms of what to do with a purposeful plan to get things done.

STRATEGY MAP EXAMPLE



We use the 'Strategy Map Example' above for that. It's a way to condense to one page – "what are we going to do, what will it look like when we've done it, what do we need to focus on and who will therefore do what, when and at what cost." (Note that the above is highly genericised (deliberately) and therefore not likely to do the desired job as is). It was with a great sense of affirmation, when I was asked to join one of our most successful clients strategic planning sessions, to see them already using this exact same framework.

“Most people fail not because they aimed too high and missed but because they aim too low and hit the target.”

Les Brown.

It breaks my heart when I hear clients say (and I hear this a lot) – “all we want to do is to break even”. To break even at the profit and loss line is a terrible objective because your wine business will still bleed cash under that scenario. That is why so many clients say to us – “Our accountant told us that we made a profit last year but what happened to our cash?”

The best of our client’s plan to be and are, highly profitable. I’ve written extensively about how to achieve this but at the end of the day, it is the complexity of each individual business’s scenario that means that we have a business.

As a general rule, however, the better that you understand the front of your business, the better chance you have. You need to develop the ability to read a retail shelf or a wine list like you read your favourite book. Watch what your competitors are doing. Understand that they are now global and across categories.

For businesses that are not successful (and here I’ll be bold and define profitable and successful as the same thing) almost always it’s because they have missed a change in the market. For example, missing that the change to Direct was the best way forward for small producers not only means that those businesses miss out on higher margin sales, it also means, more often than not, that their whole pricing structure is being driven by a channel where price is being dictated to them and they, held to ransom. When you then add on what that Direct customer is prepared to pay versus what is achievable in retail where your brand stands alone, the difference in cash return forgone to the business doesn’t bare thinking about.

Developing that idea about where wine greatness comes from is exactly the same process as understanding where profits come from. The owners of the business need to be as keenly focused on the commercial aspects of it as the winemaker is on his art. The CEO of the most successful NZ business once said to me – “We employ people who revel in the commercial challenge” Hooray, I say.

Breaking my own rule set at the beginning of this Paper for a moment - One of my clients is an MW. He realised that the way almost everyone was thinking about pricing in his country had nothing to do with the global opportunity. He took it upon himself to make the best wine of a particular style from that country, had it recognised as such and priced it accordingly. You should have heard his neighbour’s reaction – “You can’t do that. You can’t sell your wine at those prices”. Evidently you can.

Another enduring approach of these most successful companies that we deal with is patience. By that I am not referring to sticking to a bad idea when it is clearly wrong hoping that fashion will finally fix things. That is one of the main reasons those companies talked about in books like 'Built to Last', failed.

I'm talking about being crystal clear in your own mind about what it is that your land and / or your business can do better than anyone on earth and that that has an appreciative market who will pay you well for it.

To start from scratch and achieve that in the wine industry, you will need patience. To be clear about what grape varieties will work best over the long term, to plant them, develop great wine over time and get the recognition that that deserves can be a 40-year project. And some of our best clients have 40-year plans.

The wonderful thing about today's winemakers is that they can simply go out and source grapes, make unique wines and sell them direct to customer or to trade. The horror is that everyone else will, too. Creating something that can be competitive in the long term is about building as many unique value adding factors into your wine and your story as you can. Most of the ideas that are defensible take time.

The worst thing to be doing, and we see both wineries and distributors doing this, is 'solution selling'. That is, you go to market, you hear of something that someone in the trade wants and you simply give it to them.

Yes, there are businesses like Precept Brands / Winery Exchange (US) that have excelled at this 'trading approach' but in the normal case, unless your relationship with those customers is such that they feel they can't get what you are offering from anyone else, they will.

Copying other people's ideas is lamest of all. It is always better to craft something that is unique, guided by insight and a vision of what people might like rather than a kneejerk response to the market and to the trade especially. This is why Apple smash Microsoft.

This involves sticking to what you believe, to your core brand concept. If distributors want to start getting involved in designing your brand, then it's probably time for a change. Equally, if distributors are consistently telling you that your presentation is dated or wrong for the market, you really ought to listen carefully.

These ideas are not in conflict with one another. There is the core of your idea, the heart and soul of your brand. Then there is its constant evolution. They are two different things. One can't live without the other.

A client said to me the other day – “I potentially have \$400,000 to invest in marketing next year – where should I direct it?” My response was “As a lifetime marketing professional and your trusted adviser, I recommend investing that money in the vineyard.” Might have done myself out of a job there but that is how important I see absolute quality being.

After getting quality to where you feel it needs to be, the greatest return on investment, in my view, comes from people.

For example, from our [direct to customer benchmarking](#) research, we know that for Australian, New Zealand and South African businesses producing between 5,000-50,000 cases, (i.e. the overwhelming majority) those businesses with dedicated DtC staff generated 2.3 times that amount of direct revenue.

Those businesses without dedicated DtC staff had an average of \$478,000 in direct revenue versus those with - \$1.1 Million. At an average of 65% margin, it's not hard to work out just how quickly that person can pay for themselves.

It's only with and through your people that any business's success is possible. That's why we have an army of people that we work with who can help with sourcing, training and supporting your people as well as the upskilling we do through our workshop programs. Again, and as always, please don't hesitate to get in touch if we can help. Cheers!



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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