

Wine Business Solutions



---

# The Wine Paper 41

**August 2016**

---



## ***To Export or not to Export?***

**Page 3** – That is the Question

**Page 5** – Ready?

**Page 8** – Set?

**Page 9** – Go?

**Page 13** – The Top Ten Tips for Building a Better Wine Business

Export or die! That was the catch cry that spurred Australia to lead the New World wine export boom of the 1990s, the biggest ‘disruption’ that the global wine trade has ever seen. Ironically, it has been Australia that has had the roughest time of any major wine producing country in the decade and a half that followed.

For some countries, there simply isn’t a choice. Export is not optional for most Chilean producers, for example. Until recently, there was virtually no domestic market for most of the wine they produced. ‘Export wine’ is a totally different product category to what most locals drink at home on a daily basis.

For countries with high-paying home markets like the US, Canada and Australia, the decision to export or not becomes less clear. From our research, small to medium wineries across Australia, New Zealand, South Africa and the US are now deriving more than half of their revenue and more of their profits from direct to consumer sales\*. The thought of having to pound the pavements of the worlds wine capitals becomes less appealing each day in an age where the quality of the international travel experience is ever diminishing.

So, why do it? You might even ask, “Why should Wine Business Solutions care?” We now have business helping customers with their Direct to Customer strategies and implementation till the cows come home. At time of writing, for example, we had 77 registrants for our Western Australian ‘Winning DtC and Wine Tourism Strategy’ workshops alone, so why even bother talking to clients about export?

Export matters, I firmly believe, for the following reasons:

1. Absorbing volume. This is not as simple as it sounds. 85-90% of each major wine producing country’s output sits outside of the premium space and is controlled by a very small group of companies. The supply and demand question for premium wine therefore needs to be analysed quite separately.

With the possible exceptions of Barossa Shiraz and old vine wines from the Swartland, no one in Australia or South Africa needs convincing that there is more supply than demand at every level.

New Zealand, on the other hand, is trying to convince the world that things are in balance there but again, this is in reference to their whole production, not the premium wine sector, necessarily, which is struggling in mature markets like Australia and the UK.

*\*Note - we will be conducting our direct to customer benchmarking research in September. It’s vital that as many of you as possible participate so please do allocate a few minutes of your time to fill out the survey when notified.*

The US, by way of stark contrast, has stalled in terms of total wine consumption but is still screaming along at the top end with around 6% p.a. value growth.

Inevitably, of course, all premium wine regions around the world end up getting oversubscribed by the overly optimistic, unless land limits are introduced. That volume has to go somewhere. Increasingly, as wine tastes become more eclectic, that ends up being your own backyard. (Note that according to our [Wine On-Premise Australia](#) research, more than 40% of listings on wine lists on the East Coast of Australia are imported).

2. Underpinning your country and regional brands. The absolute key to any country or regional brand's success is global sales and distribution. When was the last time that you drank a Canadian or Swiss wine? How much wine do they import? How much premium wine do Spain, Italy and France import? The best defence against imported competition is a brand, region or wine idea like, say as examples, Champagne, Rioja or Prosecco, that can compete globally.
3. Honing your competitive skills. "So, why should that be me?", you might ask. "Why should I not rely upon someone younger, more enthusiastic, more driven who loves to travel to do the heavy lifting for the country, our region and its brands? "

The key for me is that participating in international markets and understanding what it is that people want from wine across the world gives you the best chance of developing the edge needed to be competitive in your own market.

We see ever strengthening evidence from our research that those brands that connect their offer with what their region is known to excel at, are winning where those without that focus fall behind. Those regions that then go out and own that opportunity globally put themselves in the best possible position.

Equally, those countries without very clear, well communicated points of competitive difference / advantage for their regions and the brands within them are failing.

So, if you approach it pragmatically or even selfishly, export still makes sound sense and it is a good thing to be pursuing especially as the next generation of your family comes into the business.

For our own business, nothing informs strategic advice like observance of global best practice. (That's how I rationalise all of the travel to myself, at least). Once you've battled through the airports, the wine world's a wonderful place.

After making the decision to either start exporting or to re-engage, there is a process that we run clients through that I believe is essential.

The first is to review your offer. Remember that the clearer the offer and the better differentiated it is, the better your chances of being selected by your desired partners and, thereby, to be successful as a brand.

Remember that having cellar door sales and / or the domestic market drive your offer will almost certainly mean that you have more items in it than are desirable for export sales.

At launch in export markets - limit your offer to the least number of ideas you need to communicate your brand's competitive advantage. Over time – only add wines that add value to you and your importer's shared business, that crystallise rather than cloud your value proposition (i.e. the important question that your brand answers - why you matter).

As examples – if your region's 'hero varieties' are Riesling and Shiraz, leave Chardonnay and Cabernet out of the discussion altogether and then only introduce at a stage when the brand is very well established, if at all. It's taken a long time but everyone now realises that few places are best suited to any given grape variety.

Similarly, if you want to build a premium brand, leave your low price tier out of the conversation altogether, until the premium part of the offer is well established. This can take years. Salespeople always sell what's cheapest first, unless instructed otherwise. They make the same margin regardless of what they sell. Low priced tiers do huge damage to business prospects if not clearly differentiated and correctly price pitched.

Think about how to arrange your web site smartly. There is no law that says that you must show everything to everyone all of the time. Further, throwing 'export wines' in with your domestic wine offer online only adds to confusion and the likelihood that customers will use prices posted against you in negotiations.

So what does the perfect offer look like then? That small set of wines that;

- clarify what you and your region do best
- are unique in the world,
- can be demonstrated to be the best of their style.

Every good fine wine distributor, retailer and restaurateur globally wants that.

What then if you want to work outside of the fine wine model? There are boundless, endless possibilities for innovative wine ideas but in a world that is becoming ever more sophisticated and competitive, better to underpin that with mind-blowingly good wine supported by regional specialisation.

Check out [Domaine Gayda](#) for example, who have picked up where many new world producers left off. Brilliant design led brand concepts, wines that capture the value of old vines from the Languedoc and an alignment between price, packaging, product and provenance that delivers an unbeatable 'value proposition', in my view, for those looking for both boldness and elegance. *(Note – Domaine Gayda are not clients)*

You might say, well, how is that different to what the 'young guns' of South Australia or South Africa are doing? It's the overlaying of the wine school, the restaurant and the 'residence', I feel, that take them into the realm of 21<sup>st</sup> century experiential marketing, the next step up in wine tourism. Put all of that together and you can see how they now have product that is easier to market virtually and on social media as everything works powerfully, visually.

I believe that to directly copy anyone is the worst thing that you can do but to run yourself through the thought process of what an Aspirational brand should look like in 2020, informed by what the likes of Domaine Gayda or Provençal Rose producers are doing is more than a good idea.



Take Brad and Angelina's Miraval Rose, for example. For years, I have been saying in workshops that if you want to get closer to the Aspirational wine drinker, spend more time in the perfume department. If you visit France this winter / French summer, you will see that on the ground floor of every Galeries Lafayette department store, there is a mountain of Miraval next to the Chanel etc. Cheaper bought by the magnum.



Again its premium (we're talking €20 per 750ml and €35 per 1500) and leans heavily on Provençal provenance. The trick today, I believe, is to leverage the world of fine wine but move ever closer to where your consumer is both physically and psychologically.

What, then, about the flip side of the main stream fine wine most of you make – top end collectable wines? Whilst most of our clients have been battling to stay with the revolution in quality and marketing of European AOC wines, Penfolds has been rocketing ahead. They need neither provenance nor product that your typical wine passionate person can identify with to do this, it seems, particularly in China. Are they the example? I would suggest very strongly not. Ornellaia present, I believe, a vastly better model.



Antinori may have nearly 1000 years of history but Tenuta dell'Ornellaia only needed to behave like they did to achieve similar kudos and a \$US300 plus price point. In fact, the business is only 3 decades old. The Tuscan region of Bolgheri itself only achieved DOC status in 1994. By understanding the essential ingredients of a luxury brand, its owners were able to create other equally successful brands like Masseto. It's a recipe but underpinned and insured by undeniable wine quality. Too many New World brands get the luxury wine game but then take the risk of making wine outside the fine wine realm. If marketers to Aspirational customers are having success by making 'better' wine – doesn't that send a message?

With the advent of Duty Free becoming a major luxury wine channel, once again wine gets physically and physiologically closer to the customer. Makers whose quality speaks to the entire audience will win.

The next step in preparing your approach to market is that all important sales presentation. There are those that 'pooh pooh the PowerPoint' but after having made a career out of it, I can assure that nothing beats a powerful visual image of your idea. And it's going more that way. Instagram and Pinterest prove it.



To put together a standard presentation about who you are, where you come from, what wine you have and how good they are leaves you a long way short of what most distributors, who see hundreds if not thousands of these, get excited about.

This is where we feel we can add most value. To make your presentation and sales proposition compelling requires a thorough analysis of the market, the distributors portfolio, the channels they operated in and your competitive set. We had one client who personally phoned over 100 golf clubs, for example, to assess what wines they had, what price they sold them for, what terms they traded under and what they wanted most from suppliers. You can imagine how much better prepared he was to have the discussion with the distributors who were to act as middlemen for that opportunity.

Distributors need to understand who your brand is for and why they would want it. They then need to see evidence that the brand works. They need to understand who you are deeply. Export is a long term game based on relationships, built on trust. Trust comes from being professional - honest, responsive and reliable.

Finally, you want to be able to articulate a clear strategy for how you want to build the brand. Brand building gets talked about a lot but, in my experience, very few people understand it. Having the right conversation about how you intend to do this with the right importer will take you a long way down the path towards success.



That then begs the question – who is the ‘right’ importer and how do you assess that?

- Sales. It might sound trite but in my observation as many as 80% of so called importers / distributors in any given market do not sell wine and are not people you should enter into a business relationship with unless your ambitions are very small and you don’t mind taking a financial ‘punt’.
- Off-Premise Distribution Points and On-Premise Listings. Many of our most successful clients view On-Premise listings as the most important metric. That is why we put so much effort into measuring it. Next month we will release the first ever study into the US On-Premise market outside of chain restaurants. As with all of our research, we’ll be examining distributor performance on a region by region basis.
- Longevity. Business Ethos and Ethics. Extremely important. Long established businesses tend to develop a pragmatism that looks like ethics but which is in fact common sense. Lying, cheating and messing with other people’s money plain doesn’t pay. The distribution world, particularly in larger markets like the US, is full of people who don’t quite get that. They never last long. Just make sure you’re not around when the proverbial manure hits the Magimix.
- Portfolio. It is critical to understand what constitutes a power brand in the space that you play in and align yourself with a group of non-competing producers that make you look fabulous. That requires some hard work on your part to really get to know wine. There is plenty of good reading available that will fast track this understanding. Know that portfolio composition is the single most important skill for a distributor to possess. Understand that there are plenty of people out there who only collect labels with no understanding of this at all. This included some of the largest US importers whose lack of knowledge of quality producers outside the US is quite simply staggering.
- Trading Mentality. This can sometimes be cultural. Distributors can talk the talk, claiming to be brand builders but if their forbears were traders in the Strait of Malacca for the last 3 centuries for example, be careful. If they come straight out and start asking for money for discounts above trading terms before you even start working together, as some Australian distributors do, then run for the door.
- Brand Building Resources. If they have a brand manager, get a marketing plan. If they don’t, get a sales plan and look to manage brand building strategy in a more hands on way through the sales team. In large markets, don’t start business until you are comfortable that your distributor ‘gets it’ and is committed to selling your wine in the right place at the right price with right presentation and promotional support. Having to start again in major markets is much more expensive than not starting at all.

If you are still 'up for it' after hearing all that, as I know thousands of you are, after choosing partners and working through all of the compliance stuff that your industry peak bodies and relevant government departments are generally extremely helpful with, the next step is beginning the process of distributor management.

The reality is that mastery of this discipline is out of the reach of most small-to-medium wine businesses. To keep someone in global markets for 150 days or more per year in order that they face the challenge on a continuous basis is something that only a handful of companies can afford and even fewer make their primary focus.

At the time that I was doing that, there were only a mere handful of people flying out of Australia with that sort of frequency including the likes of Chester Osbourne, Ben Riggs and Gordon Gebbe (Rathbone wine group). Learning the ropes for them was largely from firsthand experience and from each other as a result of the great spirit of collaboration that was part of Australia's competitive advantage at the time.

I was lucky enough to spend most of my career working for a European company who had already built distribution selling millions of cases of wine in over 100 countries and to be managed and mentored on a daily basis by people who, most agreed, were the best in the world at what they did.

I therefore imagined that that would be my key asset when setting up this business. Rarely if ever do I get asked questions about distributor management. Perhaps because not everyone realises that it is 'a thing'. Gaining control and full understanding of the front end of your business is, however, the life and death of it. As the Sales and Marketing Director of one of Australia's most successful wine brands once said to me – "having an office remote from our winery has helped me realise that until I do my job as well as it can possibly be done, everything done at and by the winery is meaningless".

In order to help people with this, we've just rewritten our ['Winning by a Margin'](#) distributor management best practice guide which you can purchase from our web site. As always, if there is more you need help with, that's what we're here for. In order to assist people with entry into the US, for example, we've formed a strategic alliance with Ellen Forrest of Wine Business Solutions LLC. Ellen helps people through the minefield of US compliance and importer set up.

If Direct to Customer remains the main focus, Gerald Feickert is achieving great results for clients through cellar door audit and follow up training programs. Please just be in touch if you have any questions there.

# 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.

## Wine Business Solutions



Phone +612 9744 8332

[info@winebusinesssolutions.com.au](mailto:info@winebusinesssolutions.com.au)

<http://winebusinesssolutions.com.au>