

Wine Business Solutions



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## *The Great Opening Up*

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And we're off! Like many of you, or like many of you are about to, I've been around the world and back in the last two months. Probably what you can learn from 'dip sticking' in and out of places is over-stated but you certainly change perspective.

With the mass of bad news that hits us every day and a seeming lack of willingness by the media to discuss the good, other than the transparently token feel-good stuff at the end of the bulletin, it can be easy to miss what's going on here. I hope that you all caught the OIV announcing that the global value of exports was up 16% last year, the greatest value increase and total value figure ever? So much for declining demand...

I started my 'world tour' in South Africa. They were good enough to give me the prime speaking spot at the first Wine Tourism Conference in 3 years. How could I say "no"? People literally shake with excitement realising that the plague has past and that international guests are returning. Everywhere you go, you are afforded the sort of welcome usually reserved for royalty, excepting that royalty don't get treated like long-lost best friends. You can trust me. It's incredible. But you probably ought to see and feel this for yourself.

My opening comments centred around the fact that SA export sales were up 25% year on year despite the worst set of horrors faced by any wine industry anywhere. Direct sales were up 17% despite multiple total alcohol bans, according to [our benchmarking](#). (Best not to ask too many questions there, I decided...)

VinPro had been trying to convince government that the industry would be whipped out, and they had a strong case, but of course the opposite happened. Many normally conservative South Africans have realised, consequent of having to adapt or die during COVID, that if you start innovating, you can just keep on going.

Whilst we would all wish to be carried through COVID on cotton wool like Australia and New Zealand were, just as was my question when I travelled from Munich and London in the mid-80s – who won that war again? South African's now can and should believe they can do anything. So, look out.

You may also remember, at the start of the pandemic, Australian Grape and Wine (the peak body) talking about mass small business failure. I had much psychological counselling work after that, let me tell you. We've also heard that the On-Premise shrunk to half what it was in Australia in 2019 and that a full recovery is years off. Not according to the principals of the three biggest distributors who I took the trouble to speak to personally. All reported value up, if volume down in some cases, and percent of On-Premise sales being the same as pre COVID. One reported that sales were up 130% for Jan-Apr on last year. So, whilst I would never want to downplay the impact of the pandemic, let's not miss this once in a lifetime wave.

What is the great opening up? I'm referring to the return of international wine tourists and the recovery of the On-Trade, of course. The first bit has caught a bit of press as everyone gets used to managing their borders as the hoards return. That's the easy bit and things are already working better than before COVID.

The real challenge is making hospitality work. It's not just about staff. It's about your staff having to spend most of their time doing on-the-job training and fixing appliances that, in turn, haven't been serviced. Meanwhile your guests are doing the meercat (craning their necks wondering "where's my server!?!")

That's creating the sort of stress that led your people to question their career choice the first time around.

The old model wasn't sustainable in every sense of the word. World over, I'm watching the horror on good people's faces as they realise how hard it is to rebuild the old 5 Star service model and do it in days. There is a level of complexity there that has been built in over decades that simply isn't necessary right now.

The smartest of my clients were onto this before COVID. If you must do food, and the pressures to do so are only increasing, question every aspect of service delivery. Make it the smartest, simplest, fantastic tasting single thing that will sell your wine and then get the human that did it to present it. It can be that simple.

One such example of this was the wine and food pairing I enjoyed at Oldenberg Cellars. They simply use a local version of tete du moine (head of monk) and some handmade Italian crackers (handmade by Italians). That curly texture, that smelly taste, the spikey salt, the zip of the acid and the crunch. The Spanish have a saying - 'que no te la den con queso' (don't give it / tell it to me with cheese). No red wine served with this cheese can possibly be resisted. It's one small detail. Winning is about punishing every detail, continuously.



What does it then look like when you take it all to the extreme? What if you were to, say;

1. I don't just want a vineyard, I want a managed ecosystem with native flora, animals, insects all thriving.
2. I don't just want workers, I want brand champions whose health, education and future opportunity is at the centre of how we work with and support them.
3. I don't just want this to be about direct employees, I want to participate in whole of community upliftment. Because if we don't all get on the bus together, we won't get there at all.
4. I don't just want ingredients sourced from within (X) kms, I want to ensure that our food is as good for you and me as it possibly can be.
5. I don't just want to do wine and food pairings; I want to enlighten and excite via gastronomy.
6. I don't just want to innovate; I want everybody in the business challenging absolutely everything, ever second of the day.
7. I don't want to do all this as a 'marketing exercise'; I want this to be how we live, breathe and grow together every day.

Then you would be Creation Wines. What does that then get you? A tasting space full of people of all ages and backgrounds who want and appreciate 'better'.

That is how it was when I visited, and this is just the beginning of that 'great opening up'. You might know that I am founding chair of the [World's Best Vineyards](#). I have absolutely no influence over the outcome other than that mine was one of the 5000+ votes in total. Creation was voted in the top 10 best wineries to visit on earth. Note – Owner, Carolyn Martin, will be beaming into my presentation at the Australian Wine Industry Technical Conference on the 28<sup>th</sup> of June which is centred on the future of wine with food.





Prior to COVID, many of the most successful premium North American wine brands were capitalising on integrating DtC brand building with premium trade sales and promotional strategy.

In other words, ‘good old concentric brand building’, as proselytised in [‘The Barefoot Spirit’](#), whereby when a brand starts to develop a DtC initiated following, astute product placement in premium outlets based on audience mapping is used to give brands the best chance of ‘rediscovery’.

Winemaker market visits and other brand building events can then be pinpoint targeted. These can involve both trade and consumers, with events sometimes held on consecutive dates saving time and money. Those brands were, unsurprisingly, reported to be having the most success leading into COVID, outperforming those relying only on sales channel participants, and their other own marketing efforts, to sell their wine.

US domestic businesses had an advantage under this scenario in that imported brands typically struggled both to make those in-market connections and to fulfil direct orders, cost effectively. Some WBS clients, like The Mollydooker for example, did manage this well, but it involved a lot of set up work and some fancy footwork through the nightmarish bureaucratic minefield that is US liquor legislation.

There are still very few businesses like Cape Ardour (who work across Australia, NZ and South Africa) who have importer, wholesaler and retailer licences who ship wine in container lots to fulfil cellar door orders. This then means that they can ship to 44 US States and Canada at pricing equivalent to ex-winery.

This is essential and will replace the old model of paying \$200 or more to ship a case door to door. Some of our clients also had this bulk shipping / next day delivery combo in place for the Chinese market working well. It can and will be the model for all markets. It’s just a question of who gets there first.

## CHANGING TASTES, HEARTS AND MINDS

If we are to follow the logic all of the way through, there are people who can just talk wine all day, but I pray not to be sat next to them at a wedding. The best and largest audience for wine is the food and travel engaged consumer.

The greatest leap forward that any premium producer can make, therefore, is fully embracing wine as a gastronomic product. 94% of wine is consumed with food at the table. This is the one occasion that wine still owns. And we all must eat. The On-Premise is not only the best place in which to build upon this idea, it's pretty much the only place, outside cellar door and your events, for people to try it before they buy it.

What is the cost of not fully embracing wine as a gastronomy product? I've always said that the UK market is the true litmus for wine brands and the one to which we should all look when seeking to understand global competitiveness.

Source – Wine On-Premise UK 2022 - [WBS On-Premise Research](#)

Country	2022	2021	CHG
France	27.5%	27.8%	-1%
Italy	24.7%	23.0%	7%
Spain	12.3%	11.1%	10%
Chile	6.1%	6.9%	-12%
Argentina	5.3%	5.1%	4%
Australia	4.9%	6.1%	-19%
South Africa	4.5%	4.8%	-6%
New Zealand	4.3%	4.8%	-10%
USA	3.0%	3.3%	-11%
Portugal	2.8%	2.2%	28%
Germany	0.8%	0.9%	-16%
UK	0.8%	1.1%	-32%
Austria	0.6%	0.5%	5%
Hungary	0.4%	0.4%	1%
Greece	0.3%	0.2%	82%
Lebanon	0.3%	0.2%	66%
Romania	0.3%	0.4%	-9%
Turkey	0.2%	0.4%	-34%
Others	0.9%	0.7%	16%

  

Style	2022	2021	CHG
Sauv Blanc	19.2%	20.8%	-8%
Chardonnay	15.1%	16.9%	-11%
White Blend	10.4%	8.8%	18%
Pinot Gris/Grigio	10.3%	11.1%	-7%
Chenin Blanc	4.3%	5.5%	-20%
Picpoul de Pinet	4.1%	3.3%	26%
Albarino	3.5%	3.3%	7%
Riesling	3.5%	3.7%	-7%
Cortese	3.4%	2.9%	17%
Viura	2.7%	2.3%	15%
Viognier	2.5%	2.8%	-12%
Verdelho	1.6%	1.2%	31%
Gruener Veltliner	1.3%	1.2%	7%
Vinho Verde	1.2%	0.6%	119%
Soave	1.2%	1.0%	21%
Vermentino	1.2%	0.9%	26%
Muscadet	1.1%	1.0%	13%
Grillo	1.1%	0.7%	46%
Gewurztraminer	1.0%	1.3%	-22%
Rhone Blend	0.9%	1.1%	-18%
Others	10.4%	9.3%	12%

  

Style	2022	2021	CHG
Tempranillo & Blends	11.7%	11.5%	2%
Malbec	10.4%	9.8%	7%
Red Blend	10.3%	8.4%	22%
Pinot Noir	8.9%	9.4%	-5%
Merlot	8.7%	9.0%	-4%
Shiraz	7.1%	7.4%	-4%
Bordeaux Blend	4.8%	5.7%	-15%
Rhone Blend	4.8%	5.2%	-8%
Cab Sauv	4.7%	4.8%	-4%
Sangiovese	4.4%	4.2%	5%
Primitivo	2.7%	2.5%	9%
Gamay	2.3%	1.9%	16%
Montepulciano	1.9%	2.0%	-3%
Grenache & Blends	1.8%	1.9%	-7%
Nebbiolo	1.8%	2.0%	-13%
Nero d'Avola	1.6%	1.5%	9%
Valpolicella	1.3%	1.1%	15%
Amarone	1.2%	1.3%	-10%
Barbera	1.0%	1.1%	-7%
Cab Blends	1.3%	1.7%	-18%
Carmenere	1.0%	1.0%	-8%
Pinotage	0.9%	1.5%	-37%
Others	5.7%	5.0%	13%

As you can plainly see, the New World is getting slaughtered. Why is that? Firstly, the global audience is now sophisticated enough to be completely comfortable with blends, be they old or new styles. There is recognition for the free hand given to winemakers these represent and the interest they bring. It's not like young New World winemakers are not experimenting with blends, it's just that the Old World and Emerging World (Eastern Europe, the Middle East etc) are simply going at the opportunity harder.

Secondly, and most importantly, some wine made from a French varietal grown in a New World location does not a gastronomic wine make, especially if it's had to have been irrigated, acid adjusted, tannin adjusted, reconcentrated or whatever else just to commercialise it.

That is not to say that there are not brilliant gastronomic wines made from French varietals, made in New World producer countries, but until gastronomy is at the absolute core of thinking then the overall impression will work against those countries.

Thirdly, you will notice that the white wine styles that are winning can broadly be classified as 'textural' and the red ones as 'savoury'. These are characteristics, of course, that help support and enhance fine food.

You will also notice that Malbec is still hanging in there. It's one shot or die for the Argentinians, so it's not surprising that they have been able to continue to grow consequent of keeping a laser focus on evolving to become more food friendly.

The US On-Premise looks very similar to the UK except that they are still discovering Albariño and Gruner Veltliner. They are flying. These wines, of course, deliver that same 'mouthful of flavour' that is the driving force behind the likes of Picpoul de Penet in the UK which now has more listings than Riesling in the market.

For reds in the US On-Premise, Spain and Tempranillo are red hot as is Grenache, which is perhaps Australia's biggest opportunity beyond closing the gap between what Americans think about Australian Shiraz and what it actually is today.

You might ask why Bordeaux, Burgundy and Rhone red are falling in the UK. It's because they're getting priced out of the On-Premise. That is what happens once you've done the job of brand building correctly. Sales of fine wine at auction, for those regions, Piedmont and Champagne etc. have never been stronger.

The big question then becomes what happened? How did Italy and Spain pick up from the quality image they had ten years to be the hottest categories is the On-Trade globally?

Italy, in the Australian market for example, went from 2% of listings to 10% in just a few years. Italy is now more important to Australian restaurants than any other wine producing state or country other than South Australia.

It's down, principally I believe, to something known as 'whole of region, quality upliftment'.



Where once the appellation control system was painted by the New World as the Achilles' heel of the Old, regional organisations all over Europe are putting into place programs designed to improve the soil, the vines, the vineyards, the cropping regimes and the winemaking so as to improve the quality, profitability and sustainability of each region. In my book at least, those three things are the same, led, of course by quality.

And it's working. You've only to look at Soave today compared to what it was 10 years ago or to watch British supermarket buyers scrambling around Eastern Europe trying to find cheap Pinot Grigio because the Italians don't need to sell theirs to them anymore at those prices, to realise that.

Even the DOCG Moscato d'Asti guys are taking a holistic approach to quality improvement.

It is not just in relation to the wine were European producer are lifting their game. I had the great honour to have lunch with the beautiful people at the [Vins Val de Loire](#) in the beautiful city of Tour pictured below.

Normally, wine tourism in France is a nightmare. You buy the dream, you have the expectation, you fly around the world, you locate yourself next to it, but you can't, for love of money, touch it.

The guys at Vins Val de Loire realised that perhaps this isn't so smart and now have 350 (yes that's right) accredited cellar doors that you can visit. Those are just the ones that are part of the Vins Val de Loire official tourism program. There are over 1000 who now receive members of the public on their properties.



Lest we forget that there is a war going on. And I'm not talking about the red wine mountain that is the product of China's bullying of Australia.

One of our clients, Purcari Winery is right on the front line of European conflict. Located in Moldova just a stone's throw from the Ukrainian border near Odessa, they can see the bombing from their front porch.

They have turned their hotel into a refuge for freighted people pouring over the border and have even dedicated the profits of one of their wines to helping the Ukrainian people.

Their Freedom Blend contains grapes for Ukraine, Georgia and Moldova all of whose people have been oppressed by Russia since long before the current invasion dominated our headlines.



If you are an importer and want to help, please just let me know. Spare a thought for what's coming for Australian producers as well. Sometimes the effects of war only kick in long after the causes were a news story. The best way we can all help is to be part of the Great Opening Up. It is a tough job, yes, but we should all be doing more of it. As always, if there is anything else we can help with, please just let me know.

## 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



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