

Wine Business Solutions



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**The Wine Paper 68**

**August 2022**

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*Opolo Vineyards' Crew – Paso Robles*

## ***'P' is for People***

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Wine is 'a people business'. Or so they say. If that's true, then what does that mean and what makes it so?

From my own perspective, at least, my wife can never understand how I can undertake to fly to the far side of the earth and stay in the house of people I have never met before with supreme confidence in us all having a good time.

Why is that? Almost always there is a shared love of wine, food and travel. Most 'wine men' cook, in my experience. Most 'wine women' are equally engaged, if happy to let them. A majority also have some sort of hospitality background which, of course, also helps.

Is it possible to succeed in this business without a passion for wine? My boss at Freixenet, who continues to be my great inspiration to this day, drank coke with his lunch. At that level and in those times (the 90s) then sure, not a problem. That business grew exports from 3 to 9 million cases in just 5 years without anyone in the business, other than me of course, having much of an interest in wine at all.

Still now, for brands like Oyster Bay, commercial acumen trumps wine engagement by many times. A whole raft of their competitors, who are no longer in business, can bare testimony to that.

Today, however, when the owner of a luxury food business sends out for fast food chain pizza for the board's dinner, then that can only be a massive red flag, in my book. And, indeed, it turned out to be. His vineyard was more like a wind break around his other assets, than something seriously thought about.

I once had a client who, sadly, is no longer with us, who had a 'wine paddock' next to a cattle paddock, next to his polo horse paddock on his 10,000-hectare property. The most beautiful, charming man you could ever hope to meet but the poor guy literally didn't know how to use a corkscrew.

I had to, as gently as I possibly could, open his eyes to the fact that his neighbours were at local farmers markets, at regional events, and doing tastings for trade clients as often as five days a week in an all-out battle to build a brand vs growing a 'crop', putting it in a bottle and hoping to find someone more interested in it than he was.

They say, "do what you love and it won't feel like work". Most of my clients know they're working. Hard. But at the end of the day, it is the love of wine and the love of people that sustains them. Having reconnected with most Australian clients in the flesh in the last month, a virtual business is neither for them nor me.

# CHOOSING YOUR CUSTOMER



**Beverage Wine Consumer**  
The Commodity Business

**Branded Wine Consumer**  
The Grocery Business

**Aspirational Consumer**  
The Image and Lifestyle Business

**Adventurous Appreciator**  
The Food, Wine and Travel Business

**Collector**  
The Luxury Brands Business

Depending on which of the above wine businesses you are in, the role of people and the connection needed between them is totally different. No one expects factory wine to have a human face, but the likes of The Wine Group in the US exemplify how shared values can drive success for any type of wine business. I even find myself reading this and thinking – Wow. I would want to work there / I want my business to be that.



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## SHARED VALUES

Although our lives and stories are unique, at TWG we share common values based upon performance, empowerment, and cost-mindfulness.

- RELENTLESSLY ENTREPRENEURIAL
- RESPONSIBLE AND TRUSTWORTHY
- INNOVATIVE
- CONTINUOUS IMPROVEMENT
- TEAMWORK
- LONG-TERM SUSTAINABLE VALUE CREATION

At the next level up, the branded wine category, it is all about sharing a bottle with friends/family and not about the wine. Some of you will remember those cardboard cut-outs of Wolf Blass and Brian McGuigan meant to provide assurance to wine terrified consumers. In the end, for that consumer, it's all about brand trust, in the expectation that when you share time and wine with friends, you won't be let down.

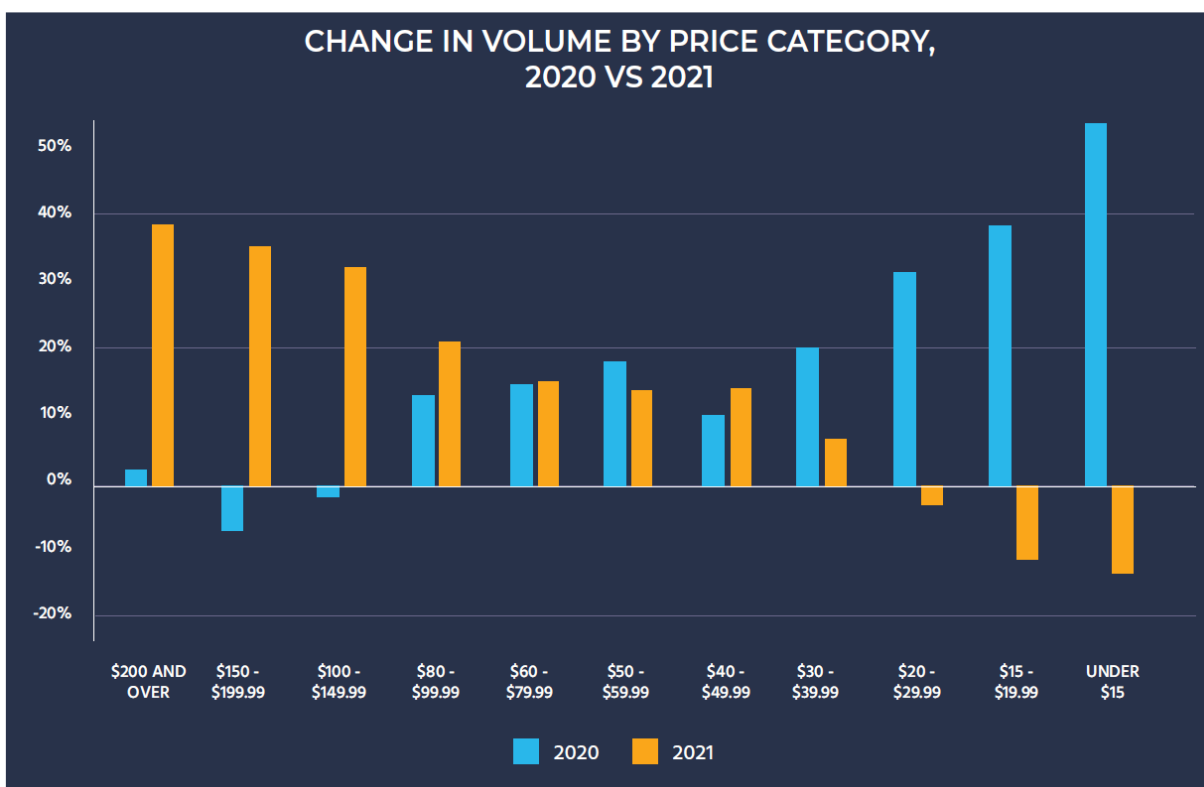
Even at that Aspirational level, who made the wine is an irrelevance. With apologies to my good friend Andrew Koerner who has just moved across the ditch to run Delegat’s winemaking operations, their customers never need know who he is any more than Moet & Chandon’s consumer customers need to. I’m sure he’s relieved about that. One less thing to have to focus on in a business winning via singular focus.

At this level, it’s still people. It’s about them. It’s about how your product will make them look and feel better. And that’s not a bad thing, necessarily. The aim of all brands should be to make people feel happy.

It is at that next level up, where 80% plus of you operate, where it is entirely about people, provenance and passion – ‘The Epicurious’, as the good people of the Barossa so eloquently label them.

At the highest level, the world of fine wine, in some ways brand actually becomes more important, but in others, personal connection is even more keenly sought. I remember standing in one of the most beautiful vineyards I have seen anywhere on earth. The CEO said to me – “I don’t know why the owner (one of the world’s richest men) has a simple table and bench seats in the middle of this vineyard”. I remember thinking “I do”. Even if you were Jancis Robinson or Robert Parker sitting there, you would be putty in his hands.

For those of you who have been along for the journey where this newsletter is concerned or who have simply used common sense to observe your customers, this may, by now, seem elementary. Let me then, please, show you how easily businesses get this wrong and just how strongly that pull from customers seeking connection is.



The chart on the previous page, courtesy of Sovos (Ship Compliant), shows the volume of wine shipped DtC in the US by price point, 2020 vs 2021. We often reference the idea of a ‘bow wave’ when it comes to catching the benefit of price and volume shifts. It doesn’t often get clearer than this.

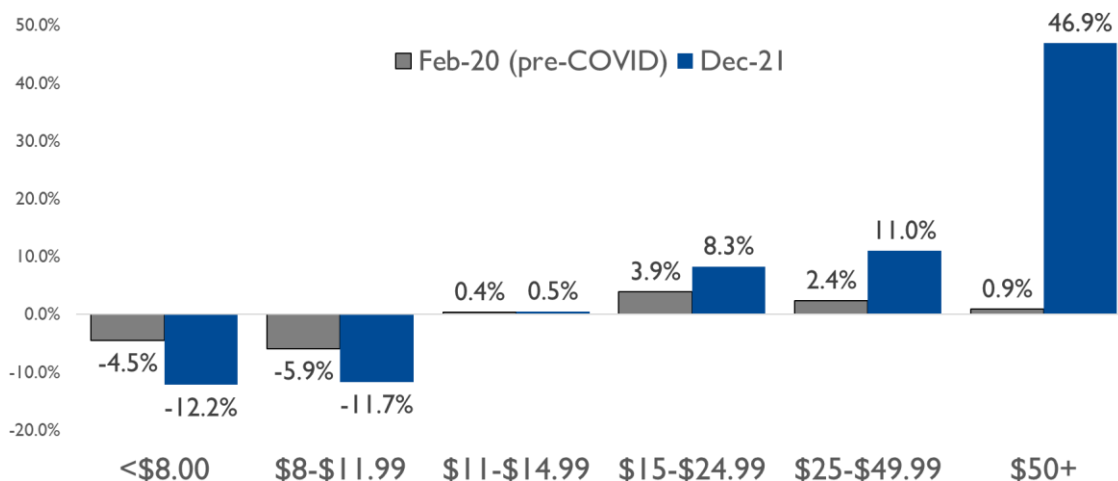
You might well ask – “what happened in 2020?”. The simplified version is that the big companies, having completely lost the on-premise and some of their off-premise volume as well, suddenly decided to take an interest in ecommerce marketing. And it worked for them, whilst people had no other way to access wine.

People generally, however, don’t care enough about wine brands in mass distribution to want to go online and order them, let alone to want to have a relationship with the maker. When things returned to ‘normal’, so did people’s shopping habits.

Where the wine engaged consumer is concerned, of course, the complete opposite happened. They do want that relationship. They expect to have to hunt for the wine. They enjoy that. You matter to them.

One of the more interesting observations, I think, in relation to these direct sales is that, even in the worst of times, the over \$200 per bottle segment didn’t stop growing. The term ‘premiumisation’ means completely different things for each of those five wine industries, earlier mentioned, and is so often cynically hijacked or ignorantly misused by big producers and, even, country representative organisations.

As per the chart below showing what happened to retail sales in the US pre and post COVID (source Sip Source) there is that so called ‘premiumisation’ effect happening, warning producers that if you’re selling below \$15 per bottle, it was time to start running about 5 years ago. Constellation did, selling a portfolio of wine to Gallo that has left both businesses better off. If you are in the 80% plus of wine businesses that sell wine for \$25 per bottle and above, then the outlook looks extremely different. Indeed, you should just plain stop listening to people who talk about the poor state of health of the wine category (there is no such thing) and keep your eye on the 10% plus per annum growth prospect that there is for good wine globally.



I think it's a fair observation by Shaw + Smith's David LeMire MW that when you see a wine business succeeding, usually the staff look like they're having fun.

Indeed, when I used to sell wine, I would take bets with myself about the nature of the buyer based on how their staff behaved. If they approached chin up, beaming and seeking to be helpful, you could rely on their boss being a great guy. If they were looking down, pretending not to see you, you could bet on the opposite. What's that line by Morrissey? *"I didn't have a job but now I found a job. And heaven knows I'm miserable now."*

Taking that to the next level. When I was running the education program for the Turnaround Management Association of Australia, research confirmed that 85% of business failure is down to business leadership.

That understanding puts massive pressure on you when you see a small army of people stood amongst your stainless-steel tanks on a cold winter's morning, looking expectantly back at you for leadership. You know that all that you do and say is being carefully weighed up. How do you keep that fun?

And how do you bake fun in? When Brokenwood came up with their mission statement – 'To make great wine and have fun' – I initially thought that they had aimed too low. I thought this was more of a positioning statement for a low engagement audience.

What I hadn't fully appreciated is that 'fun is what fun is'. In other words, if we think about what consumers of the product produced by each of those five wine industries wants, whilst it's totally different for each one, it is, at the end of the day, 'fun' for every one of them.

Whether it is to;

- leave your place feeling better for having gained a better understanding of the product they love,
- feel excited about having gained access to an exceptional experience few others enjoy, or
- just relax and have a great time.

running a cellar door, and the direct business it drives, to excellence is entirely about that. Making it fun and keeping people happy. To 'surprise and delight,' is what they say in hospitality. And it is hospitality that we need now. That has been the focus of our DtC workshops this year. How to optimise enjoyment for both the server and the customer and how to stop doing all the things that get in the way of that. Because that's how customer's hearts are won and how premium brands get built. Mostly, there is no cost to that.



Staff, staff and staff. When we ask our clients what their biggest challenge is right now, that is the answer we get. So how do you deal with that? The easy answer for the wine industry is to put the case to ex hospitality people that if they might prefer working 10am-5pm, avoiding taking drugs and alcohol till the small hour of the mornings and to see their family occasionally, then you may have a better option for them.

That is 'robbing Peter to pay Paul' of course. We need a well-functioning hospitality sector as a vital part of our brand building at the very least. In terms of how wineries, hospitality and the broader service sector are behaving, we really are seeing everything right now.

Some people are winding back operating hours and scope of service having no other choice. Some, like Qantas, are cynically exploiting the situation, gouging every dollar out of their customers at the same time as degrading the experience to the point where it is pure hell for their longsuffering employees as well. The level of blind rage felt by their customers is something I have never encountered before. The moment competition comes, and it will, the flood gates will open. I'm betting that those Qantas staff already have their CVs up to date. The likes of Air New Zealand, who have held a licence to operate in Australia for decades but until now have been clever enough not to, and Singapore Airlines etc, must be watching keenly.

Then there are those that are innovating customer experience delivery, to do so much more with less people. That, as you would expect, has been a big focus of our workshops and consulting recently as well.

Then there are those people, very clever I think, like our clients Vasse Felix, who have held their team together through it all. Realising that they have clear advantage, instead of just delivering to expectation, they conspire to see how they can deliver a three hat / star level experience against the one or two that might be the best expectation of a restaurant in a regional location. Those that have really gone for it now will surely be remembered and rewarded long after full competition returns.



Doing a fine job, providing a great experience and being thanked for it by customers and management is, of course, more than enough motivation for most hospitality people, most of the time.

But these are not those times. Good server staff are gold and chefs, rarer than bull's eggs. If you do have good people, how do you hold on to them with unemployment being so low and wage competition so high?

This was a key question at the Direct to Customer Symposium this year held in the US which, in many ways, is ahead of the rest of the world in terms of working through this challenge.

Two important observations, I felt, were that most people that join the wine industry want to learn, not just about hospitality but how the whole business works. Clients have had great results from letting people work across the business, gaining insight into the vineyard, the winery, through production and about sales.

Likewise, education. Not just WSTE type training but personnel swaps with businesses in other countries, have proven to be highly effective, both at helping staff progress in their careers and keeping them engaged.

Another tactic that has worked for US businesses especially, is to fully explain the total value of staff packages. HR peoples' job is to make what you are getting sound as grand as possible on the way in whilst keeping what you actually get to a minimum. Not all employees are savvy enough to spot the difference.

One of the most surprising things I've heard, after decades of doing strategic reviews for clients, is staff feeling slighted that they haven't been asked to be involved in a winery's key events. What an opportunity that is! People that want to contribute, for whom participation would mean a great deal, who simply haven't been asked.

Then there is wine itself. The fun in a bottle. So often wineries miss that that is what their direct customers want most and bypass opportunity in order to sell them anything else which is always at a lower margin.

Likewise, wine often ends up being the best staff incentive. No, I am not suggesting replacing pay with wine. But our research does show that wine works best in terms of what staff prefer as a bonus.

When times get tough, it's our people and our relationships with all around us that pulls us through. When things get downright impossible, as they did in South Africa during alcohol bans, then you really must think expansively about who your people are and engage all of them simply to survive. These include governments, industry associations, media, opinion leaders, investors, suppliers and your local community. The great thing is, we all got there. As always, if there is anything I can help you with, please just be in touch.

## 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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