Wine Business Solutions

The Wine Paper 69

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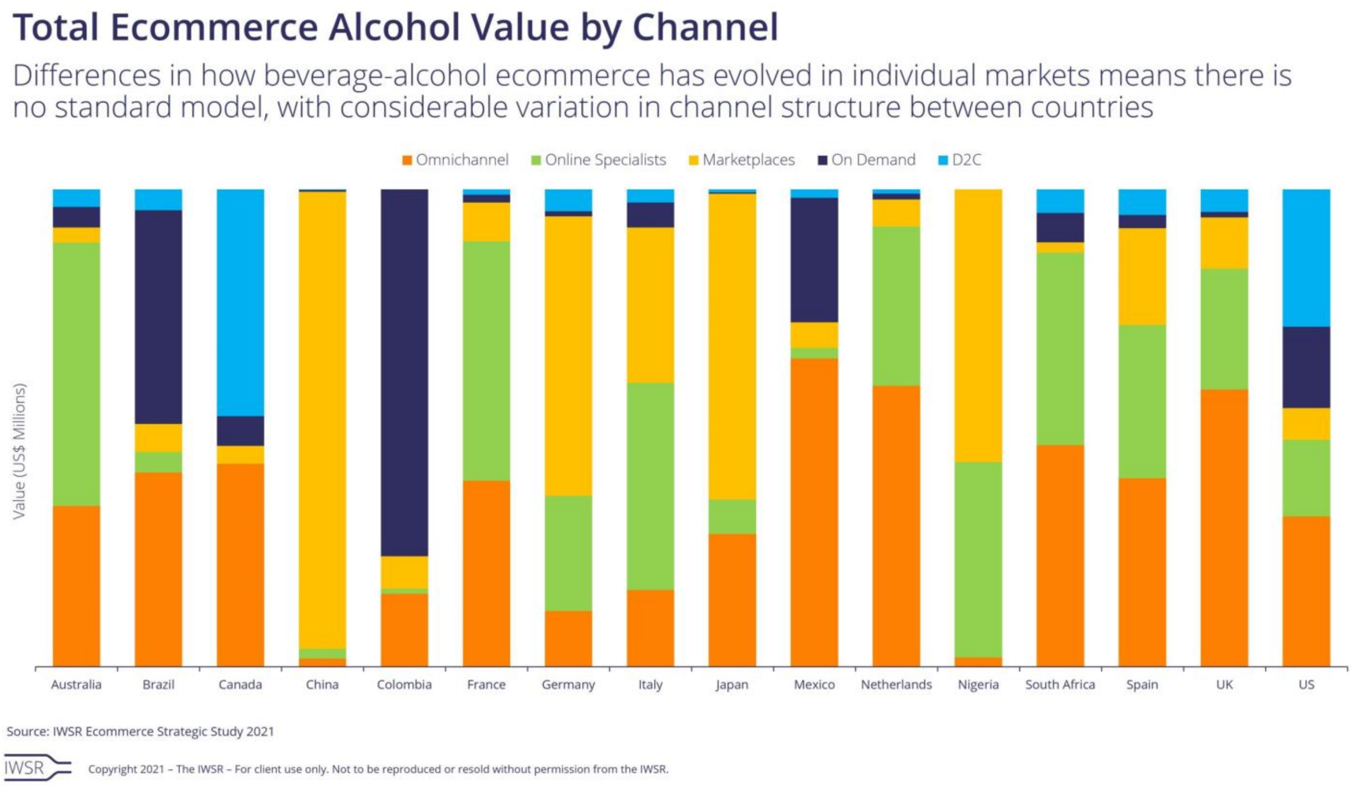
Driving Direct

Figure 1 – Total E-commerce Alcohol Sales by Channel



Sounds simple. A direct sale is a sale from a business to a consumer, right? Although beverage alcohol e-commerce is talked about as though it is a universal global phenomenon, what it is on the ground varies greatly from market to market.

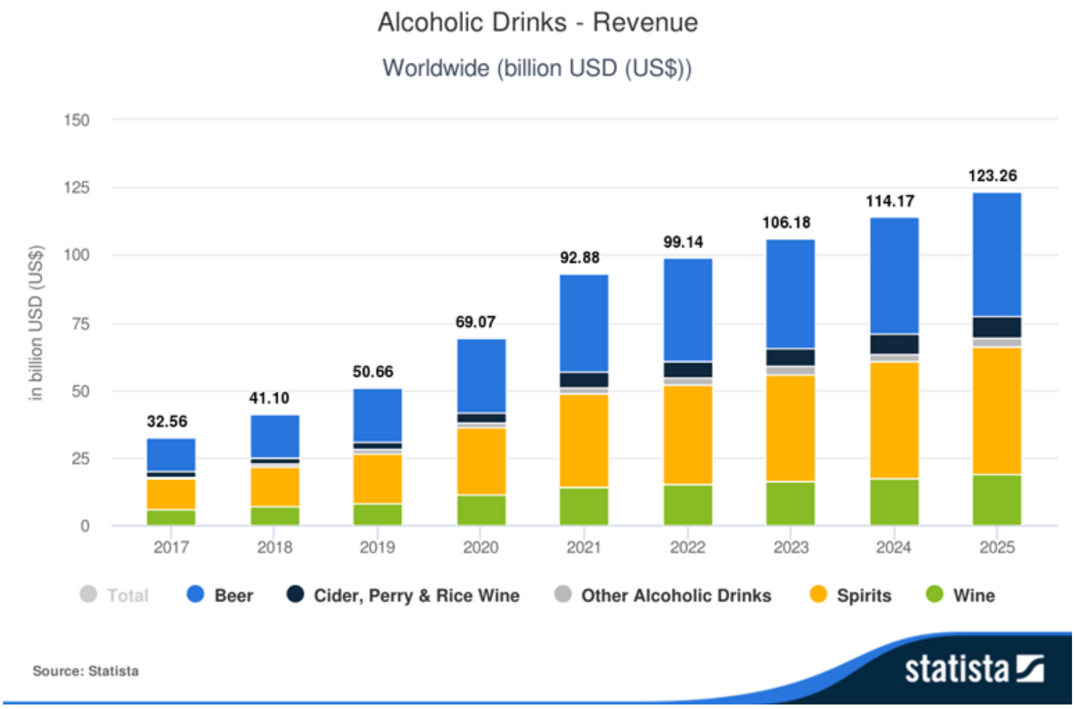
As above - The International Wine and Spirit Record (IWSR) divide the market into:

- Omni Channel (usually, but not always, where a retailer extends distribution channels via an online, mostly web-based, offer. Note - Increasingly, online specialists are looking to real world channels.)
- Online Specialists (who only operate online, are mainly web based, typically having a mature audience.)
- Marketplaces (that attempt to cover the broadest possible selection online with a big focus on price.)
- On-Demand (usually app. based, focused on speed and convenience with a younger audience.)
- Winery DtC (which has little to do with other DtC and is driven by the quality of the direct relationship between winery and customer. The average price per bottle is also significantly higher.)

Then, of course, there are multiple winery DtC channels to consider as well. Statista forecasts that revenue from online sales of alcoholic drinks will grow at an average annual rate (CAGR) of 7.5 per cent between 2022 and 2025 to reach more than US$123 billion globally. So, better not to be confused.

Remarkably perhaps, wine makes up only about 15 per cent of total online alcohol sales value globally (but more than double that in markets like Australia and the US) and is expected to have a slightly higher average annual growth rate of 8.3 per cent. IWSR predict that 6% of all alcohol sales will be made online by 2025.

Figure 2 – Global E-commerce Revenue from Alcoholic Drinks by Segment 2017–2025



The number of users (paying customers) is expected to move even faster at a CAGR of 11 per cent (2022–2025). Wine has the highest number of users of any alcohol segment and the highest penetration rate (percentage of the total population that purchases the product online), according to Statista.

Figure 3 – Global E-commerce Users by Segment 2017–2025

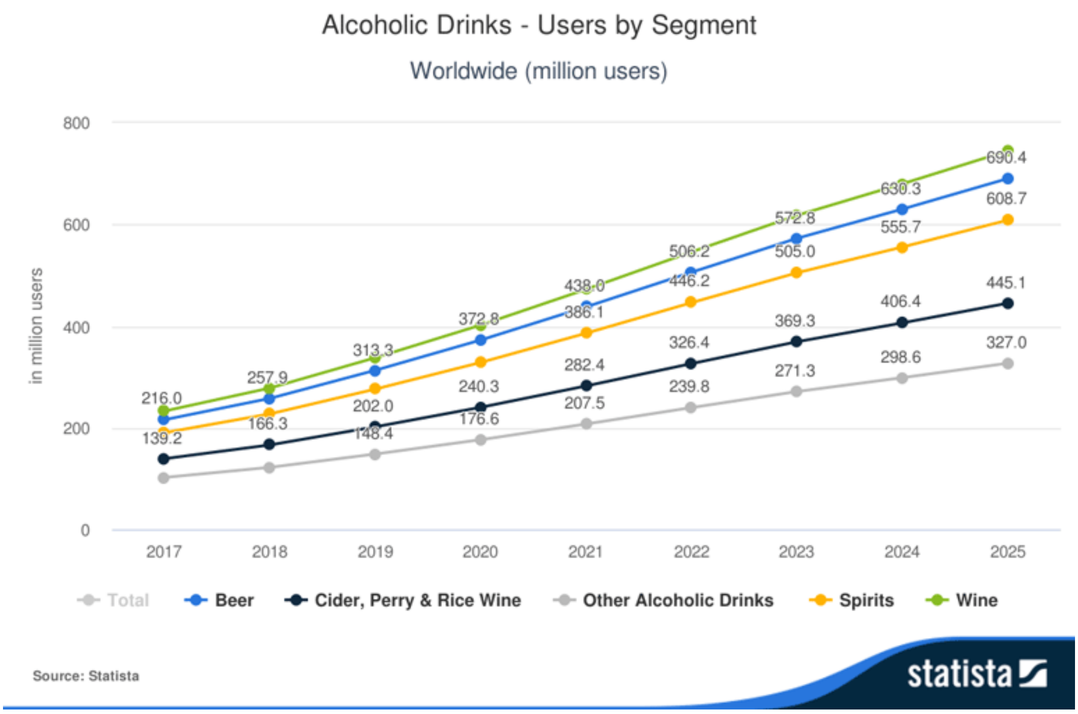
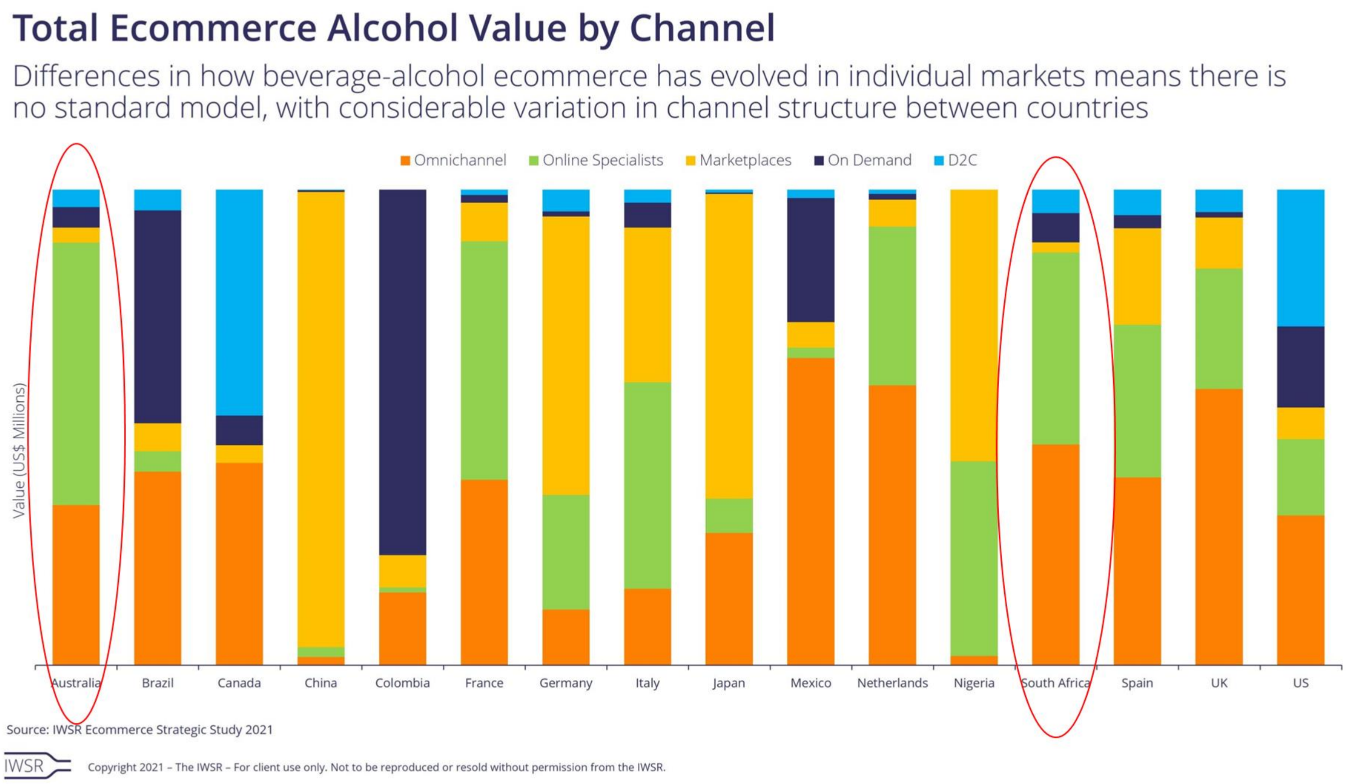


Figure 4 – Total E-commerce Alcohol by Channel – Australia vs South Africa.



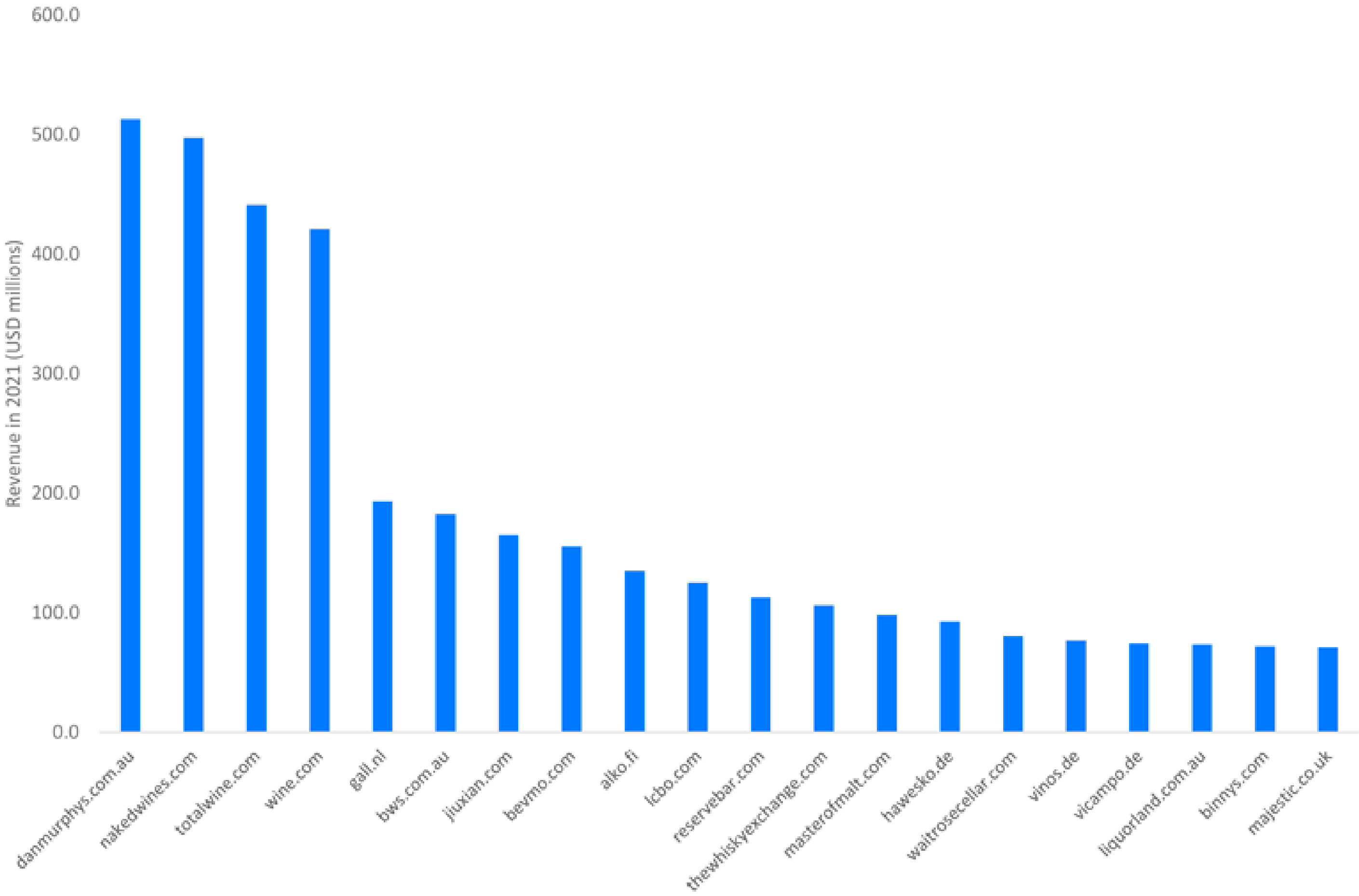
When looking at the markets across the globe that most closely resemble each other, it might not be surprising to learn that the most closely matched are South Africa and Australia. If we were to throw New Zealand in there, it would look quite similar, also, albeit that NZ has a long way to go with Winery DtC.

In these SA and Australia, the major liquor retailers and traditional (by now) online specialists have most of the market in terms of total revenue generated. The Marketplaces that are such a big factor in Asia and in markets like Germany, barely matter in Australia and South Africa (at this point).

With South Africa being a young market, in terms of overall demography, and having the highest ownership of mobile phones per pax on earth, according to Hootsuite, the app. driven On-Demand delivery services that are so popular in North America may be a factor eventually, but they are not now in either Australia or South Africa, at least in terms of services outside those offered by major retailers and online specialists.

Winery DtC is hugely important to SME Australian and South African businesses. According to WBS' [Direct to Customer Benchmarking](), just released, these businesses are around 40% reliant on their direct sales in terms of total revenue generated. They are but a tiny part of total sector revenue in each of the two countries, especially when compared to Canada (where local wineries receive favourable treatment by government) and the US (where per bottle sales value is very high and the 3-tier system is a deterrent).

Figure 5 – Top 20 Global Wine and Liquor Online Retailers by Revenue in 2021 – Source Statistia



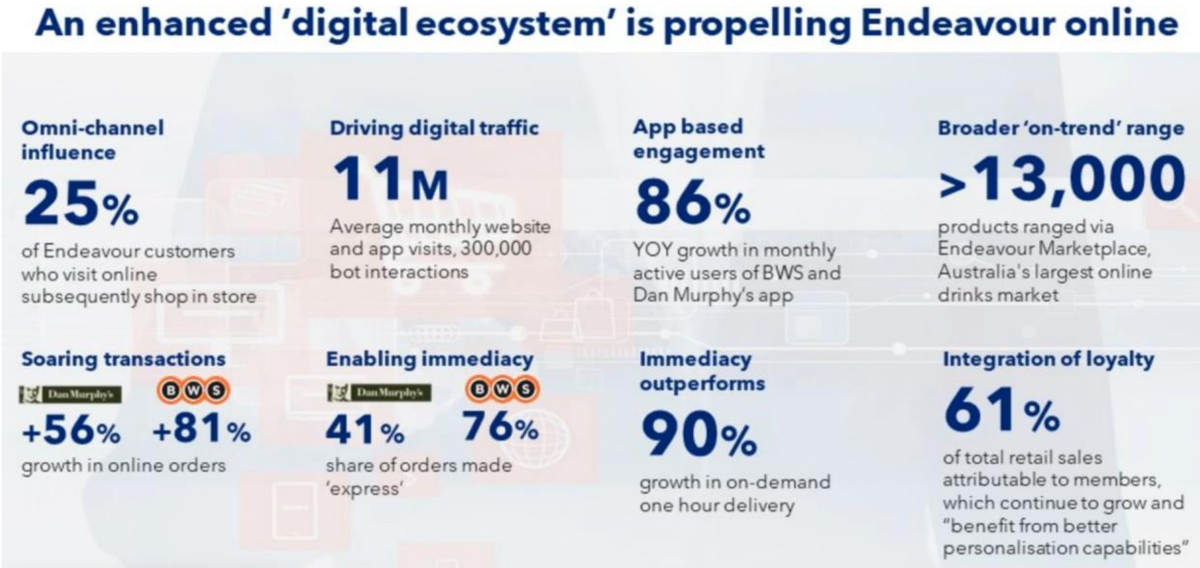
Australia is home to the world's most successful online retailer in terms of sales revenue. It makes good sense, therefore, to examine their business model.

Dan Murphy's (today owned by Endeavour Drinks Group or EDG) was founded on the premise of never being undersold. I personally met Dan Murphy (who looked nothing like the guy in the ads.) and witnessed (pre-internet) an entire team or workers clipping newspaper ads as their job, so as to be certain of this. Cost and scale leadership, combined with lowest price, is always a 'category killing' strategy.

'Dans', by their own admission, originally only became motivated to invest in E-commerce to help stem losses in traditional liquor retailing. Previous business owners Woolworths' (not to be confused with Woolworths South Africa) key move was into analytics. Their original investment, into a business called Quantium, valued the start up at around $A50Million. Today, it is worth over $A1.2 Billion.

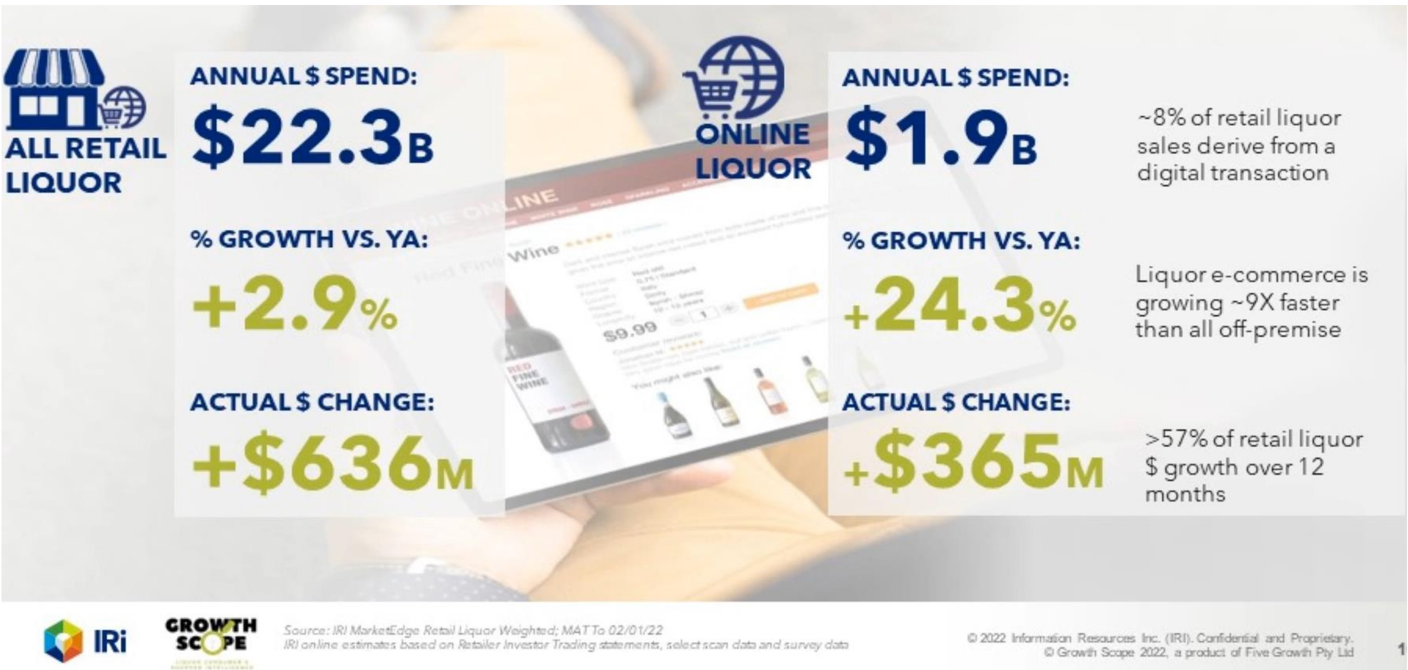
What are they doing with the CRM capability that big data analytics avails them? – sending timely, ultra-relevant communications, backed up with near to instant delivery. As well as speed and accuracy, range is the other key factor in their success. With 13,000 SKUs, they take the place of Market Places in Australia. Checkers (South Africa) and Tesco (UK) list only around 600 wine SKUs online, by comparison.

Figure 6 – How Endeavour Drinks Group Have Leveraged Investment in Digital – IRI Group



It is what EDG are doing as a result of investment in digital right now, that is perhaps the most remarkable aspect of their success. EDG are annihilating their main competitor, Coles, by a factor of ten to one when it comes to online retail sales. The quality of the online experience and service they provide is the key.

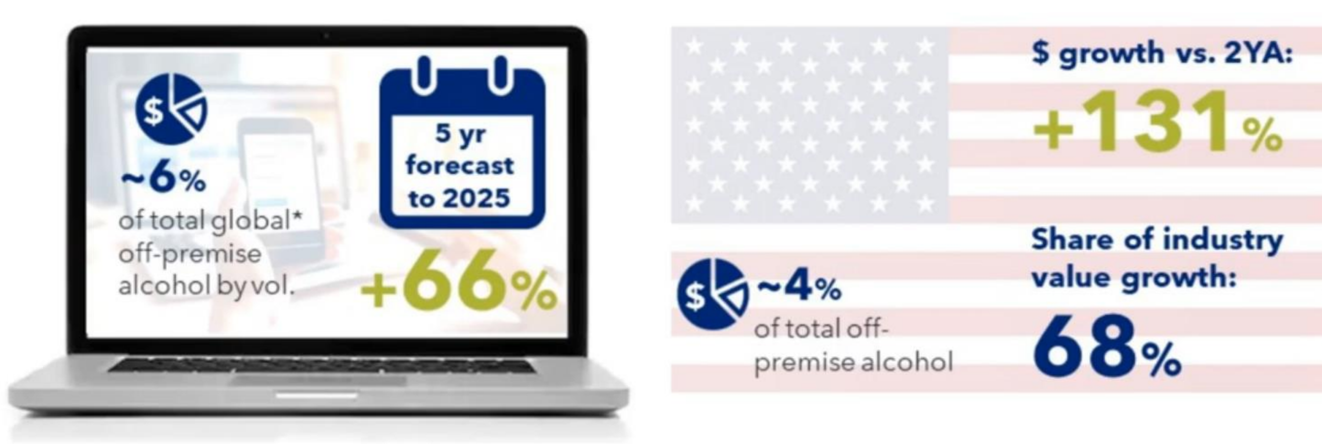
Figure 7 – All Australian Retail Liquor vs Online – Source IRI



As per the chart above, online liquor now makes up around 8% of total sales in Australia and were growing at 24% p.a. as at early 2022.

EDG have just reported that their growth to June 2022 was 17% YoY, that their on-line penetration is now 10% and that they, on their own, have breached the $A1 billion in sales mark.

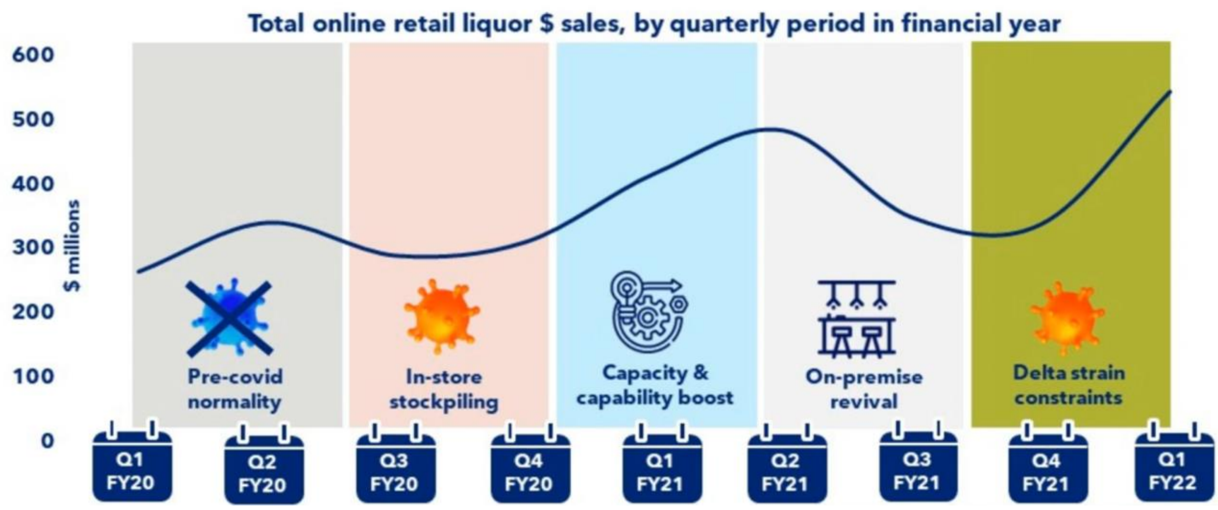
Figure 8 – All Liquor Global vs US – Source IRI



IRI then go on to point out that, despite starting from different places (online liquor is only 4% of sales in the US and 6% globally), around two thirds of value growth in the liquor category is coming from, and will continue to come from, online sales globally.

And whilst it would be remiss not to mention that online sales growth had temporarily slowed due to the 'normalisation' of markets, IRI and other sources are projecting a resumption following this short-term downturn that has affected the stock price of the likes of Naked Wines etc.

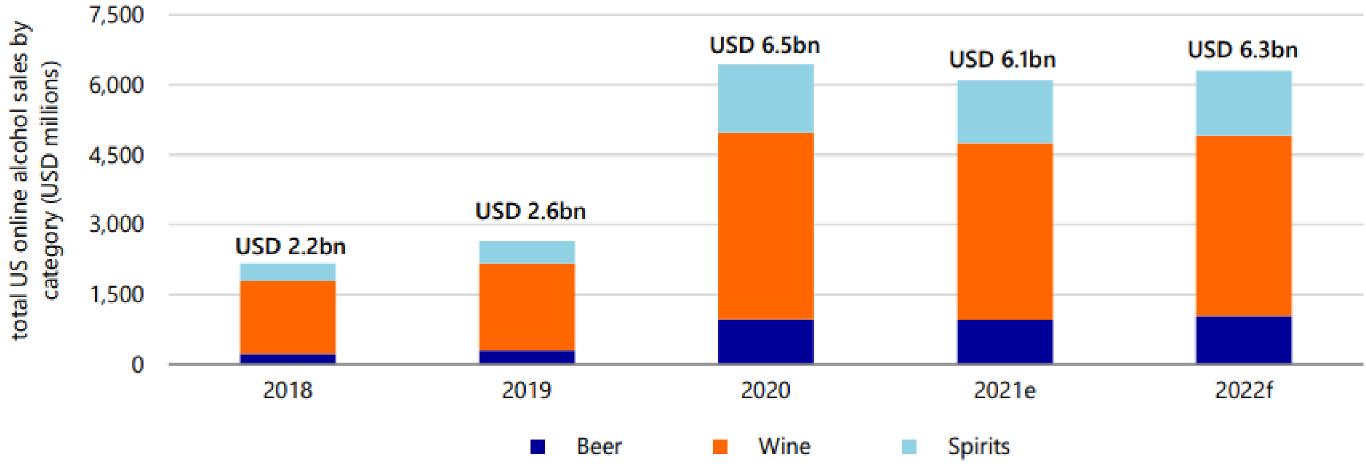
Figure 9 – Factors Affecting Australian Online Liquor Sales – Source IRI



Another key insight from the Australian market is that one in ten purchases is nominated as a gift purchase. Dan Murphy's launched a Gifting Hub in October 2021 following a doubling of online gifting in the prior six months.

In summary, it seems clear from the Australian experience, that the business that invests fastest and smartest in online will win.

Figure 10 – Total US Online Alcohol Sales



Source: Interviews and other industry sources, Rabobank 2021

The wine e-commerce space in the world's biggest market, the US, is more complex.

According to Rabobank, despite more than doubling sales in one year (2019-2020) to nearly $US6 Billion, they are only predicting 3.4% total growth in online sales for 2022. That's off a base of just 4% of total alcohol sales as earlier mentioned.

Grocers moving online are set to grow sales of alcohol by 15%, the same figure as for delivery apps like Drizzly and Instacart who, between them, control 86% of the Marketplace sector, according to Rabobank. Rabobank projected the traditional DtC and Online Retail segments to decline by more than 5% during 2022. As WBS was expecting, this did not happen. DtC shipment value year on year to Sept. 2022 was flat.

Figure 11 – Value of Winery Shipments (Note, Excludes Takeout Sales from Wineries) – Source Sovos

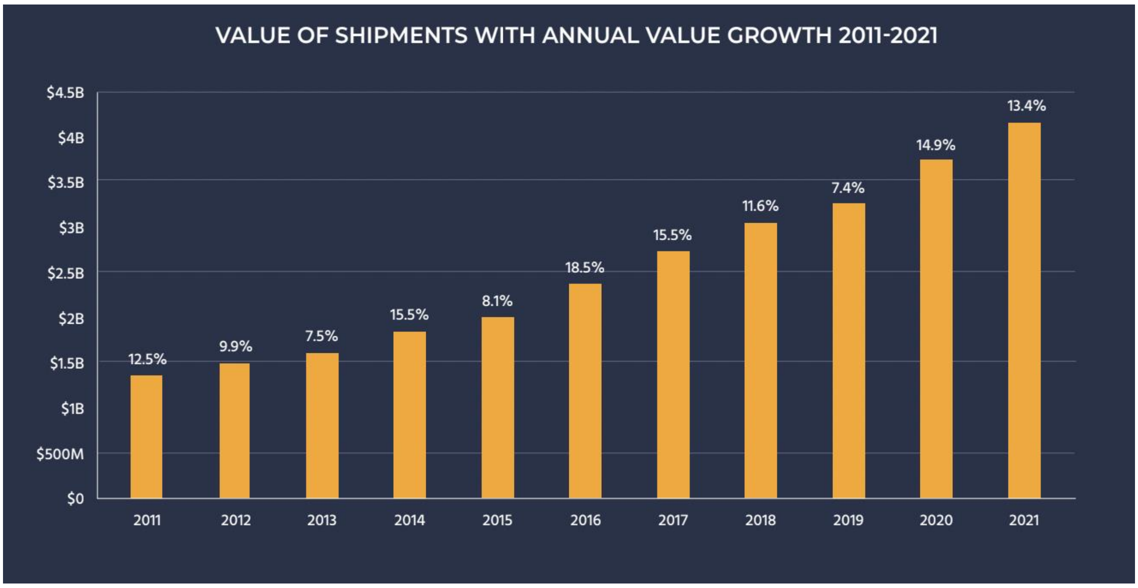
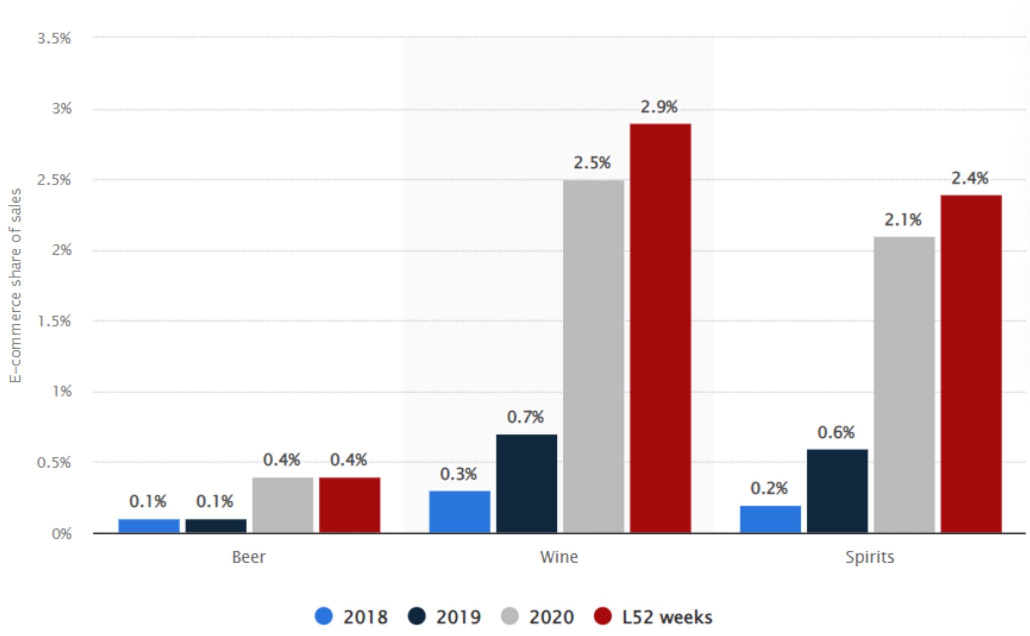


Figure 12 – E-commerce Share of US Beer, Wine and Spirits 52 Weeks to April 2022 – Source Statista



Why were we confident that the US market would hold up better than Rabobank were forecasting?

As per the chart on the preceding page, despite all the upheaval that happened during COVID, US wineries adapted well and there was little variance, in winery direct shipments, with the longer-term trend line.

US winery direct sales can't go up in double digits forever, of course, but with such low overall market penetration and many other factors still weighing on 2022 results, we expect 2023 to be back to 'normal' double digit growth.

As above, Statista also shows a significant increase in the amount of wine sold as a proportion of total alcohol e-commerce.

Coupled with that, Statista are projecting 10% CAGR for all US alcohol sales from 2022-25.

You would have to expect that the wine e-commerce sector would, at the very least, keep up with that.

This all then needs to be balanced out with the view of the likes of Silicon Valley Bank claiming a likely decline in the total US wine market based on demographics and health concerns.

As so often happens, the more information that you have, the more complex the picture can become.

On balance, however, we see no reason for less than 10% pa growth rate in US wine e-commerce from 2023 onwards.

By now you might be thinking that this is all very interesting but how does it help me unless I'm selling via Online retailers which, for most readers, ought to be the last place you should want to sell a bottle of wine?

In the Wine Paper 59, I wrote about how I was a speaker at a Bank of America Merrill Lynch investor day. As the morning wore on, it became apparent that almost no one in the room understood what winery DtC is. Many had very loud opinions about what it should be, no less, attacking my clients, who included Vanya Cullen and Jeffery Grosset, for 'sitting on their backside and waiting for customers to come to them.'

Just as e-commerce is very different from one market to another, what is important varies massively from one consumer group to the next and from one type of shopping to another.

There is no point in being a business that is the answer to a question that no one is asking (quoting my good friend, Andrew Stark). Nothing exemplifies this more than the spectacular failure of the likes of DW8 (or Pix where no one could even explain what the question was).

In DW8's case, speed of delivery was one of the last things on the minds of wine club members and receivers of allocations. For those customers, accuracy, rather than speed, is many times more important.

You don't have to be good at everything to win on your 'racetrack'. Dans may be world class at sending targeted emails (something small wineries can do even better with a little help and know how) but you want to try going in from the other end. They will not have it at your local Dans. They will not have it when it is supposed to be on back order. They will ship the wrong vintage. That bit, for Dans, is still really hard.

Likewise, any winery that thinks that offering a broad range is the key to success is heading for disaster. Just ask their accountant and/or inventory manager. So, if it is not speed, it's not range, and it may not even be lowest price, why does anyone shop at a winery let alone join their loyalty program and why am I so convinced that wineries do know what they're doing, in the main?

Firstly, you don't get to 40% of revenue (or over 70% for participants in Silicon Valley Banks's annual DtC survey) without doing a few things right. I was asked by one of our survey participants this year about what the key take outs are. Firstly, those businesses that benchmark themselves against our report parameters and win, generate the most revenue. It's that simple. The other key finding this year is that wineries now know what CRM is and are seeking to known how to use it. For years now, this has been a core focus of our workshops and consulting along with research. As always, if we can help you, please do be in contact.

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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