Wine Business Solutions

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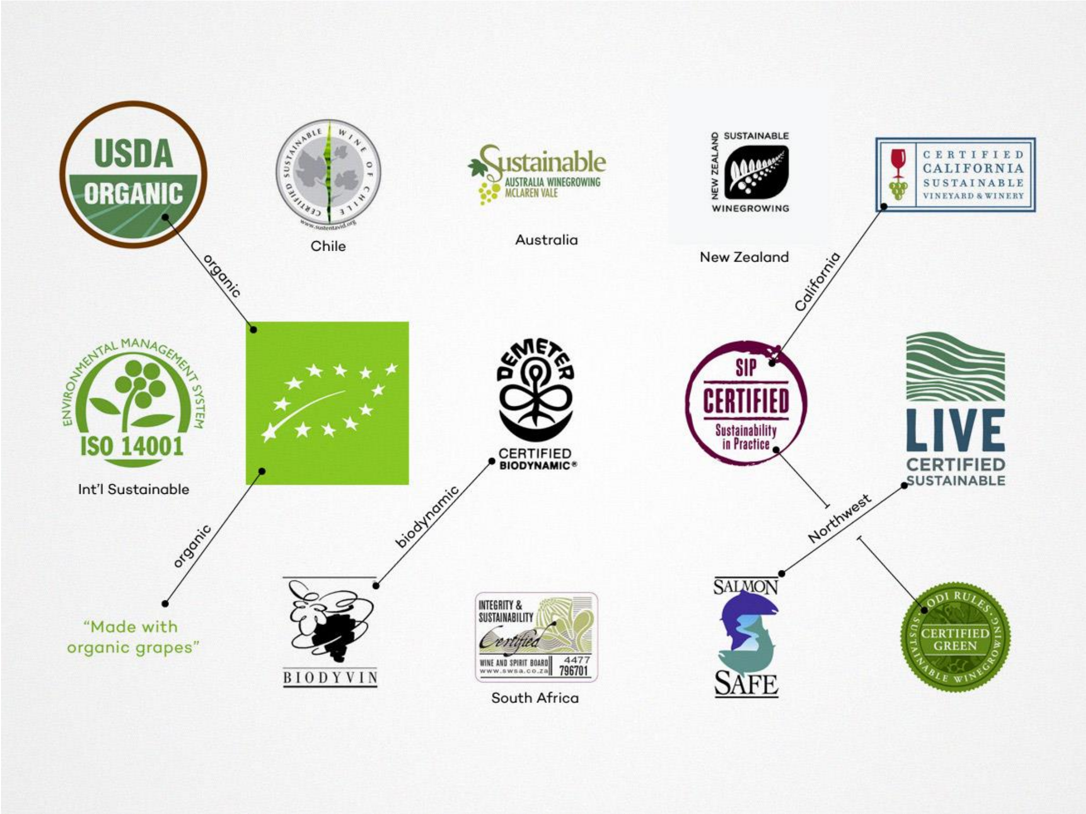

Sustaining Sustainability

Not long after I started this business, almost 20 years ago now, my father asked me a question – "What makes you think that you should be giving advice to wine business owners?"

Tim Finn (not the owner of Neudorf Wines but the Crowded House one) once said that getting out of New Zealand was like climbing out of treacle. As a man, to be in the right way, you are to be humble, self-effacing and never to look to stand out. My dad was just doing what any 'good Kiwi bloke' is supposed to do, he thought - making sure that my head didn't get too big and that I didn't get too far ahead of myself.

He was right to. To do what I do, I would either have to have been insufferably arrogant <u>or</u> to have seen something that I thought almost no one else truly understood that would be transformative for my clients.

And I had. There were several things, actually, that fed into one big idea – How to build a profitable, sustainable wine business. Without profit, there is no 'sustaining sustainability', after all.

When I ran Mergers & Acquisitions for Freixenet (the world's largest sparkling wine producer) I was privileged to see the books of over 200 SME wine businesses. When my wife and I bought the houses that we've lived in, I looked at over 200 properties in each instance. I figured that a similar level of diligence ought to be applied when potentially spending 10s to 100s of millions of dollars of someone else's money.

What struck me was that most were unprofitable, and none were meeting what the likes of Jeffery Grosset likes to refer to as 'investment threshold'. Except for one.

Freixenet could not understand, at that point, how any SME business could grow into their global supply chain. I could. It wasn't difficult. Anyone on the ground in New Zealand could see Marlborough coming like the Paekakariki Express. Rather than buy that business for Freixenet, I decided to work in it as MD instead.

What did I learn that so inspired me to set up this business? What shook me like the frequent earth tremors that rocked the tanks in the winery? I learned that profitability is a choice, confronting as that may sound. You set the correct parameters, you manage to them, and you get the desired result. It is that simple.

That is why you almost never see public listed companies going broke. When you are the guardian of a listed company's shareholders money, you're just not allowed to. In theory at least. That is one of the reasons, at least, why Delegats (Oyster Bay) has a 34% EBITDA margin whilst at least 5 key direct competitors (including Villa Maria, Sacred Hill, Coopers Creek, Yealands and Ara) ran out of cash.

That small, listed company I was running is today known as 'The Foley Wine Group, New Zealand', a highly profitable, near $60Million turnover, half million-case wine business. 10 years after I left, however, what was then known as The New Zealand Wine Company also needed a cash injection. Thanks Bill Foley.

You see, you can have an operating model that runs like a Swiss sowing machine but if you don't take charge of the front end of your business, you will grow your way out of business with certainty. Australians can think of how Peter Lehmann and other similar sized businesses managed to do that. Donny Sebastiani (of the famous Californian wine producing family) once told me that he considered 200-600,000 case businesses to be in the 'hell zone' - too big to avoid being in all channels and too small to compete with the big boys.

The CEO who followed me was from another industry with an operations background. In seeking to make an SME business more efficient, he focused on the wrong things. In previous papers you would have heard me talking about how one of the largest ever Harvard Business Review studies found that, over 40 years, surviving businesses had two things in common – a focus on growing revenue and innovative differentiation.

My cousin ran Oyster Bay in Australia for the first 4 years of operation. When she left, I spoke to Delegat's Chairman, Graeme Lord, whilst he was Operations Manager there. I asked him about my cousin's challenge, from her perspective at least – How do you keep people engaged selling less than half a dozen wines?

I'll never forget his response. "We employ people who enjoy the commercial challenge." That was the wonderful thing about Freixenet – we had only one wine to sell, and you couldn't sell it as 'wine'. Most of our importers were big global spirit houses. I love wine as much as anyone. But there was no wine to love.

I had no choice but to love the numbers, love the fight to get to market, love the commercial challenge.

Nearly all winemakers love something else. That was the insight I had from viewing their books, at least. That was the opportunity I saw. If I could help winemakers see where the front end is in terms of what the consumer of any given type of wine is prepared to pay, then I could help them to position their brand and provide customer experiences in such a way that customers would pay. And not ask for a discount.

If I could show them the profound affect that pricing correctly would have on their profit, it wouldn't be hard to get them to see the value of my services. If I could show them how to do their costings accurately then they could work out whether selling any given wine was making them richer or poorer. If I could show them how to get their managers and distributors to stay within budgets, they would be a <u>lot</u> more profitable.

If people have heard about the New Zealand Wine Company, it is likely that it was for their sustainability initiatives rather than the high standard of winemaking that the business carried into the new millennium, the point at which I joined the business.

The NZWC was the first wine business on earth to be certified 'Carbon Zero'. The next CEO certainly got the winery humming but understood neither wine business nor marketing making two critical mistakes.

Firstly, expecting that certification would do the sales 'heavy lifting'. He hadn't understood that any type of certification falls into the realm of assurance. It is not the primary reason why most people buy wine brands.

Yes, brands like Patagonia have a profound advantage driven by their pioneering of the 'for good' movement. But their clothing still needs to be first rate as well as all other aspects of how they manage their business.

Secondly, they used the accreditation to get British supermarket listings, the one place on earth that SME wine producers should be looking to stay furthest away from. Worse, they did this with exclusive labels at the expense of building a core brand. As the supply / demand balance shifted, the inevitable happened.

So where did this pioneering of the sustainability movement in New Zealand emerge from. I would like to be able to say that I led it, but it was all down to our brilliant winemaker, Dave Pearce.

Dave embodies that nationally self-proclaimed quality – Kiwi ingenuity. Dave is that humble bloke. He never wanted himself seen as anything other than that idealised individual. He just gets on and makes things better through simple daily innovation, that which we would like all our employees to be engaging in constantly.

He realised, for example, that by mixing acidic and alkaline components of winery waste together, he could create a neutral by-product that could be used to fertilise a block of trees that would act as both a carbon sink and the means through which to keep pristine the deep, waterfilled fault line fissures around the winery. These provided the habitat for the endangered frogs and birds that appeared on labels and in our marketing.

That was just a tiny part of it. There were literally hundreds of small and large innovations, most of which cost little, having a strong positive net benefit in terms of carbon footprint and cost of running a business.

Saving the planet before saving the planet was a thing, in other words. And God only knows New Zealand needed that as much as anywhere else. Big Dairy and others still have much to answer for.

With the pandemic now well in the rear-view mirror, sustainability is rapidly becoming the top priority for businesses. It is difficult to know where to start if a sustainability strategy hasn't been part of your traditional annual planning process. There is plenty of free advice out there but if I could proffer some of my own tailored to the wine business, here are seven pointers.

1. Find your 'why'.

   We all know of businesses that have adopted a cause with religious zeal but if you are not the religious type then scepticism can easily get in the way of an all-out drive in one direction. We all want to make the world a better place and want to take action before it's too late but what action?

   Consumers are increasingly looking to brands and businesses owners to lead the way. We hear that every day. I know that you're feeling the pressure. I've had those conversations.

   Courtesy of Australia Post, I've provided a compliance checklist. But checking boxes is exactly that. Compliance. And, to be candid, that was all I was doing at the New Zealand Wine Company. Corporate governance. I hadn't bought religion. Not even after witnessing the small miracle that was unfolding.

   It wasn't until I heard Karissa Kruse of Sonoma County Winegrowers speak that I truly got it. It's about survival. No matter what end of the political spectrum you sit at, whether you want to save the planet (greens), the human race (the left) or just yourself (the right) there is a very strong motive to act.

   The best thing to do, therefore, is to 'find your why'. Find that thing that motivates you beyond simply making good wine, having a good lifestyle and making an income.

2. Set a baseline in terms of your impacts.

   Start by seeking to understand your business's impacts across all of those items that are in the checklist following and be clear about what your starting position is.

   As we are always hearing, we can't get to better if we haven't got something to measure to begin with.

Sustainability practice	Y/N	Unsure	Notes
Health and safety standards - including in the supply chain			
Fair labour rights, human rights and no child labour - including in the supply chain			
Equal opportunities, diversity and flexibility in the workplace			
Local community involvement and philanthropic support			
Reducing or offsetting carbon footprint			
Reducing waste, water and energy used in operations			
Reusing and recycling materials			
Commit resources to developing sustainable products			
Commit resources to sourcing more sustainable products or materials			
Commit to sustainable packaging			
Develop sustainability targets and ways to measure progress			
Leverage sustainability of existing products to reach new customers or markets			
Good governance and accountability			
Code of ethics and transparent reporting processes			
Compliance and risk management			

3. Prioritise what matters.

Those of you that are amongst the 330 wine businesses that have paid for my consulting advice, or if you have attended our workshops or read our research, you will know that I'm always looking for what is translatable across markets so that if there is something working somewhere that hasn't been implemented somewhere else, clients get the benefit of that knowledge.

Sustainability is an area, however, where the focus tends to be very different across markets.

In South Africa, it is all about empowering people. For without a strong, educated, proud and included worker population, there would be no wine business.

In New Zealand, it's about clean environment. Having, for so many years, tied their national brand to a clean green image, they risk everything by not being at the forefront there.

In California, and again I didn't really get this before having had it explained, it is about water security (perhaps the most obvious one and driven by climate change), land security (with pressure coming from everywhere especially property developers) and labour security (with Donald Trump having done such a 'great American' job of convincing their most precious asset that they weren't welcome).

4. Assess your existing practices.

Having found your 'why' (your overarching reason for being), worked out where you're at and prioritised what matters, the next step is to examine your existing practices and those of your partners all the way up and down your supply chain.

The purpose, of course, is to work out what is best practice, what needs improving and where the opportunities are.

5. Collaborate

There are all sorts of community, corporate and not-for-profit groups out there trying to achieve the same goals you are.

There are also regional bodies, like McLaren Vale Grape Wine and Tourism, the Orange Region of NSW and Stellenbosch Wine Route that have been way out in front in terms of leading change.

There are also individual businesses, as diverse as Bonnievale and Creation Wines in South Africa, for example, who are only too happy to share how they've made startling progress during one of the toughest times to do so.

6. Communicate progress.

My favourite snippet pulled from Rob McMillian's 102-page State of the Wine Industry Report 2023 is his impassioned plea to be smarter about how we communicate what we're doing.

(What it's not) Our wines don't contain fungicides, glyphosate, pesticides, velcorin, isinglass, bentonite, sulfur dioxide, copper sulfate or worm castings.

(What it is) Our wine is made from organically farmed grapes and contains natural yeast, natural and added sulfites for freshness and less than 1% residual sugar from the harvested grapes. A 5-ounce serving has 140 calories.

It is vital to think about how you measure report and communicate progress across all channels and to all stakeholder groups. This needs to be woven into that integrated communication strategy that we always reference in our workshops – a plan about who will say what to whom, at what interval and using which medium.

This doesn't need to be complicated. But a business misses a trick if its web site, newsletters, corporate communications and consumer interactions are not extoling all the value that is being added via your sustainable initiatives. So often I have heard winemakers say that they would rather just get on and do rather than talk about it. "Why?" has to be the question. Overselling is a risk. I get it. But so is being too humble.

7. Celebrate

If there is one thing that the social media algorithms love, it's celebrating an award for achievement. When I won the Wine Communicators, Australia award for Best Serialised Publication, for example, I was accused of being the 'Mick Jager' of wine social. Normally I am the Fred Flintstone, By choice.

Rob McMillan throws the challenge out at the end of his mammoth work - Who will lead? None of us can shirk that one so what is my job? To make sure that there is the cashflow for you to be able to cover any transition costs through making your business more profitable and, therefore (here's the word again), 'sustainable'. My observation is that can be easy, it's not always expensive and gives your most creative people the best sort of outlet.

As we mentioned in The Wine Paper at this time last year, this is the most exciting time of the year for wine business analysts, owners and senior managers who are planning ahead.

Everyone, almost, who has something useful to say about the wine business, seems to want to say it at the same time. They used to all go to the same show. Now they run in competition with one another.

You know what that is going to look like. They're all going to be talking about 'the recession that we had to have', to quote that infamous line that got Australian Prime Minister, Paul Keating booted out of office.

I'm not worried about that, and I don't think that you should be either. In the third of the century that I've been in this business, there has, of course, been several full wine sector cycles and four major recessions.

There is a playbook to deal with that, one that I spoke about in over a dozen Australian wine regions as part of the Finlayson's Roadshow following the GFC / Great Recession, a playbook that applies during any downturn.

Nor am I am greatly concerned about the whole No / Low thing as a direct threat to premium winemakers even if it is a huge threat / opportunity for the category more broadly. Hipster wine? Children who weren't born when that kicked off are now heading off to high school.

What I am concerned about is helping clients who simply want to get to better.

I'm particularly interested in projects where we start with a clean sheet of paper looking to make the styles of wine that will meet the market through being the best possible expression of what and where a producers' grapes are grown. Engaging the right people early, and I am not just talking about myself here but expertise across winemaking and viticulture as well, has paid huge dividends for clients.

There has simply never been a time during which trade and consumer understanding of premium wine has been greater. And it's true, I believe, that there will never be enough genuinely great wine.

Those that are deeply committed to quality and innovation leadership always outshine.

Having gotten the taste for better during COVID, it is our job, simply, (if not simple job) to work out how to keep getting better, to give people better experiences and to do everything in a more sustainable way.

First up, I wanted to let you know that I will be speaking to the topic of ´Business Sustainability via Building Strong Wine Brands' at this year's Wine Tourism Conference in Stellenbosch.

I thought that it would be very bad manners not to turn up seeing event owner / organiser Margi Biggs and I figured out the theme for this year's event over a glass of wine following last year's conference.

That will be on the 17th of May. I have therefore changed my South African workshop dates to the 15th and 16th of May, just as a heads up to South African readers (or anyone else who might be there around that time).

The theme of WBS's two-day workshops this year, perhaps unsurprisingly, will be all about becoming more profitable and, therefore, sustainable.

Workshops will be run across Australia and New Zealand during May and June and Europe in September / October.

If anyone wants to book in time around those dates, please be in touch early as my diary is filling fast.

I'm going to be at ProWein. This is the first time that Australia, New Zealand and South Africa are back to full force since COIVD so very excited about that. If you want to lock in a time for a catch up, please be in touch directly.

Anyone in the Bordeaux area, Southwest of France, Northern Spain or UK - I will be at our house in France during much of September, early October. Nothing to do with the Rugby World Cup, of course.

And please don't forget all our resources (follow this link) if you're doing sales, pricing and market channel planning. As well as our On-Premise reports and Direct to Customer Benchmarking on our web site we have other research that does not appear on the site such as a new report on the Canadian On-Premise.

We're also constantly doing tailored analysis and providing strategic advice to clients.

So, once again, please don't hesitate to be in touch if we can help you in any way at all.

Wishing you a prosperous, profitable and more sustainable 2023.

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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