Wine Business Solutions

The Wine Paper 73

October 2023

Profiting Directly

The average cellar door that is open 7 days a week now turns over more than $A2Million. That's according to our [Direct to Customer research](), just released, that benchmarks Australian, New Zealand and South African wineries. Wine Clubs alone are worth almost $A750,000 on average, more than the value of Cellar Door sales, in Australia, the US and New Zealand. That is serious money worthy of serious consideration.

Figure 1 – Average Tasting Room Purchase by Location. Source – Silicon Valley Bank (SVB)

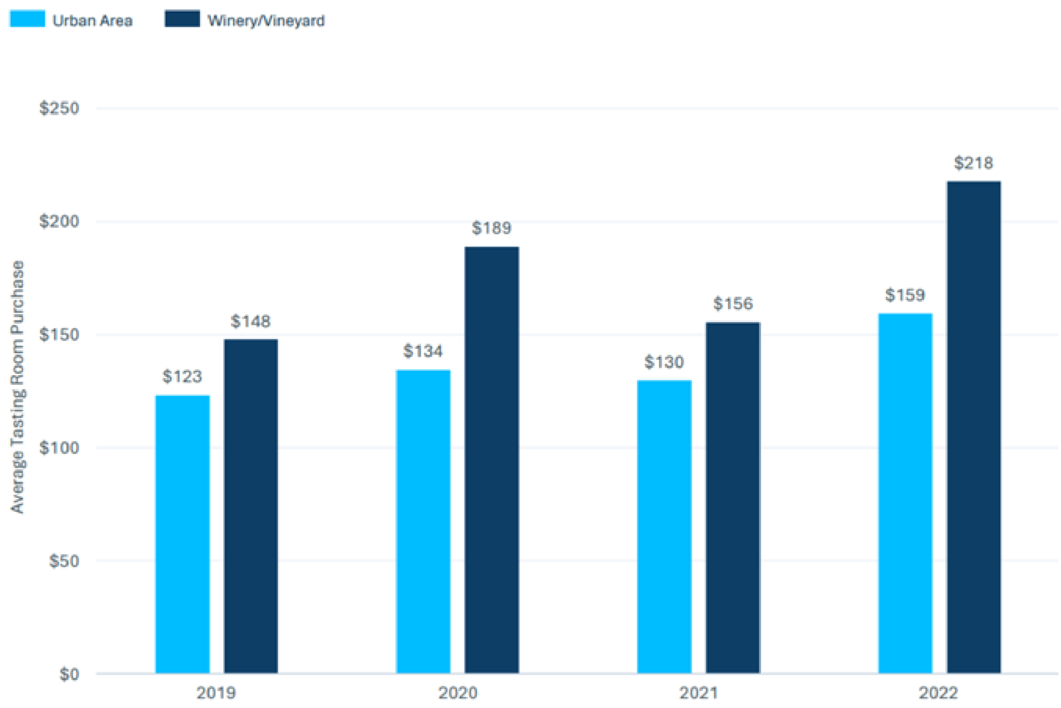
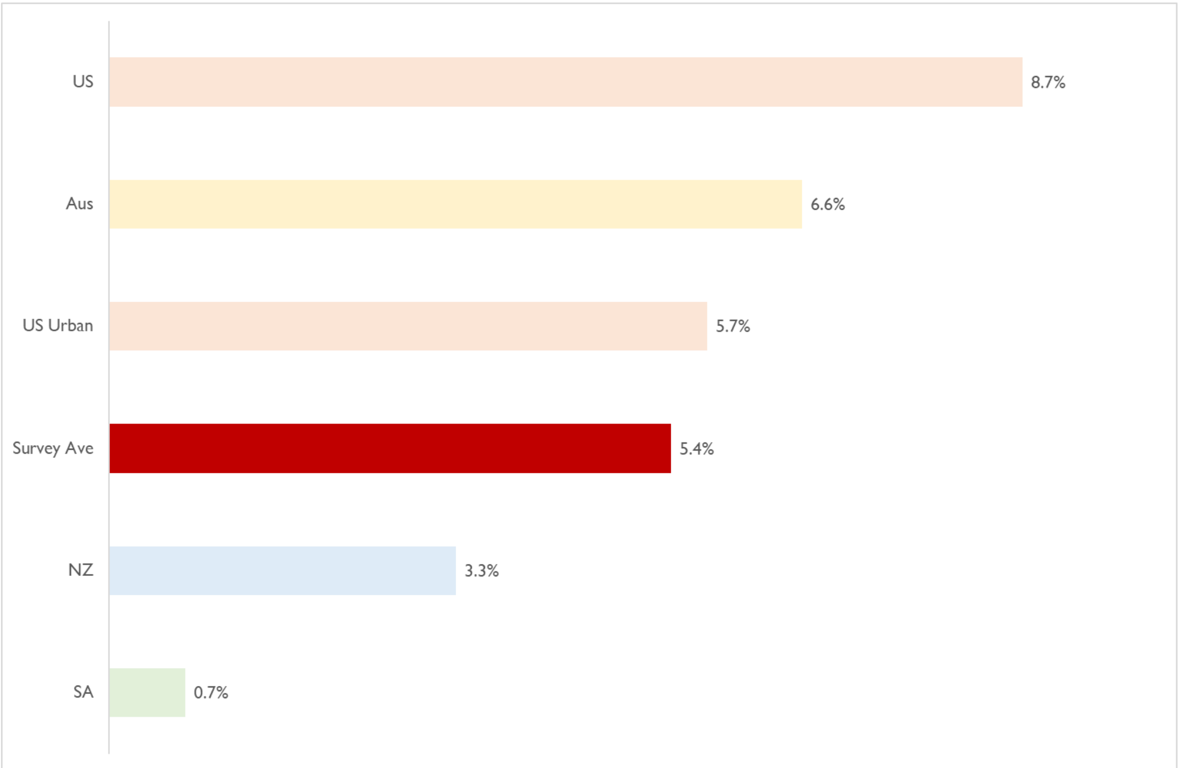


Figure 2 – Average Club Conversion per Cellar Door Visitor – Source WBS. US Data ex SVB



As with all things in life, the key is set up. The first question is "where should I locate my 'sales theatre'?" Urban cellar doors are much less common in Australia, New Zealand and South Africa than they are in the US. It, therefore, makes sense to consider the experience of the US where they are plentiful.

Urban cellar doors typically achieve less sales and club signups than cellar doors on wine estates, although those US urban cellar doors' signup rates are around the same as those for our survey participants generally.

Urban cellar doors can still be a good option either as a secondary point of customers acquisition or as a first step anticipating building a cellar door on your winery site eventually.

If thinking about doing this, it is vital not to start a bottle shop, restaurant and wine bar. You risk achieving the profit result typical of those business models and causing a major distraction for the rest of your business if you do. You must innovate. We've seen and advised on plenty of successful examples around the world.

If building a cellar door, then sales theatre setup, as part of design, is even more critical. It is important to have a wine business consultant involved even before engaging the architect. Architects are extremely unlikely to understand what is required unless building cellar doors that sell wine is all they do for a living.

The design of your theatre needs to start from your brand and work backwards. Who are we looking to sell to, what do they want from the experience of it, what does that experience look like and who is best to deliver it?

These may sound like obvious questions, but this needs a lot of thought. This is the whole winning and losing of the war. Whilst digital sales are becoming ever more important, 80% of DtC revenue still results directly from that cellar door visit.

Wine consumer demographics is an entire other Paper. Wine DtC business models must, however, clearly target one group of consumers. The most common models are the branded wine approach, targeting a more Aspirational consumer, competing in the food, wine and travel sector, and selling luxury wine.

The branded wine approach (where you, as local cellar door, act as all-purpose wine supplier to the local community) is only suitable for those in more isolated locations where you have the possibility to compete directly with the large companies. Whilst local loyalty may mean that can operate 'successfully', you will do so at lower prices and within a more limited geographic range than you would do using any other approach. There are, therefore, good returns from coaching clients to have the confidence to target a more sophisticated consumer.

Many smaller wine businesses then look to target that more Aspirational consumer with wine styles such as Sparkling, Rose and Pinot Gris etc. that are not dependent upon regionality, where that consumer is concerned at least. The benefit is that you reach the largest audience. The downside is the difficulty in creating a brand due to not being able to be distinctive enough and low consumer engagement.

So yes, you may get the sale when that consumer is standing in front of you, but you know they are going to buy Oyster Bay when they get home. Whilst it is not impossible to build a good business in this space (you can think of Bird in Hand or Peterson's Winehouse as Australian examples) it is a lot harder and more uncommon than many think. You also need scale to be able to make a business like this run profitability.

The most obvious and common thing for small to medium wineries to do is to compete in the regionally specific, quality wine space and to do so targeting the wine, food and travel orientated consumer. Those that use food in the most intelligent way will attract the biggest consumer audience. Who, who likes wine at all, would not like to know more about how to enjoy food enhanced by wine?

It sounds simple but it is difficult to execute well, and we have actually seen a drop during the last year in terms of wineries offering wine and food 'experiences'. Those that have perfected it, such as Swinging Bridge Wines in Orange and Creation Wines of Hermanus, reap massive benefits.

So, what do you then do? How, as a business targeting this consumer, do you optimise sales? That, of course, is multi-faceted and is the main body of our workshops and consulting for the last 20 years. One thing that stands out from our research from this year and last, however, is just how important tours are.

Figure 3 – Type of Experience Offered, Average DTC Revenue Generated Wine Sales

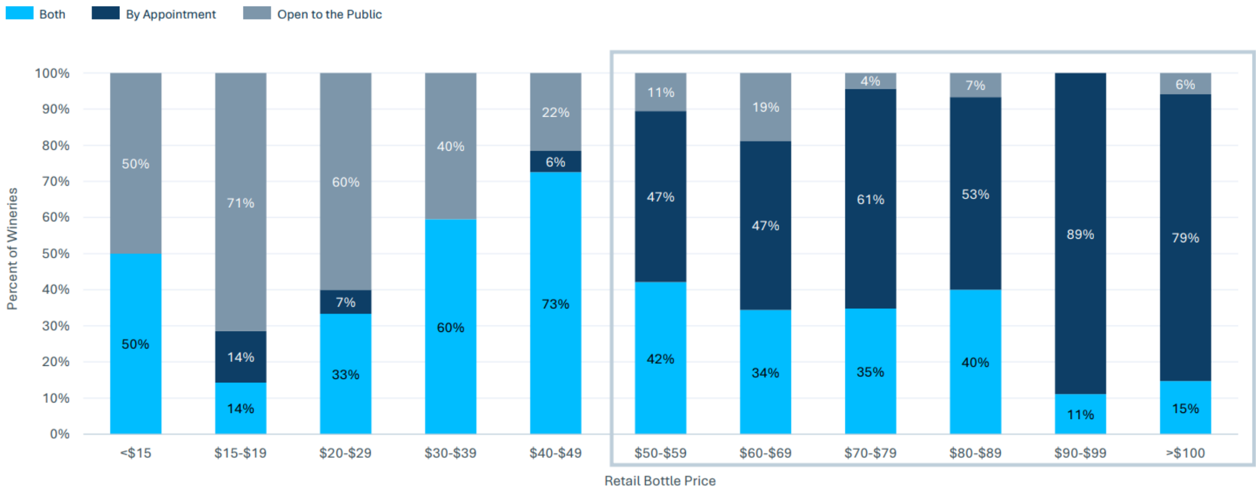
Tours	**Ave Revenue**
Vineyards tours only	$ 829,530
We dont run tours	$ 1,443,172
When we can, we run winery tours only	$ 1,585,852
Average	$ 2,052,050
Both Winery and Vineyard Tours	$ 3,495,777

Businesses that run both Vineyard and Winery tours typically generate more than double the DtC revenue of businesses that do not. Now it may be partially self-fulfilling as larger businesses tend to offer more options. But it is hard to argue with $3.5Million in revenue. The tried and trusted 'French' model of taking you all the way along the production journey, from 'grape to glass', works best. The French perfume, confectionary and other industries are similarly successful with this model. Perfume house Fragonard's guides even act as your own 'personal shopper' at the end of their tour, something I've not seen in wine.

Figure 4 – Average Cellar Door Revenue of and Percentage Utilising Booking Requirement Types

Booking Requirement	Ave Revenue
Aus	$ 2,663,193
No	$ 1,400,261
Only for Premium / Formal Tastings	$ 2,070,000
Yes - Bookings are encouraged but flexible for walk ins	$ 2,743,636
Yes - All tastings must be prebooked	$ 3,112,964
NZ	$ 1,376,219
Yes - Bookings are encouraged but flexible for walk ins	$ 977,200
Only for Premium / Formal Tastings	$ 1,673,459
Yes - All tastings must be prebooked	$ 1,477,997
SA	$ 1,247,557
Only for Premium / Formal Tastings	$ 1,153,750
Yes - Bookings are encouraged but flexible for walk ins	$ 1,257,980

Figure 5 – Average Bottle Price and Preferred Booking Style – US Data ex SVB



Selling Luxury wine is a totally different deal again. What is Luxury wine? Areni Global postulates that it is wine that sells for more than $50 a bottle and there is increasing evidence that that is the marker across the globe.

Possibly the biggest change that COVID brought about was the requirement to take bookings for tastings. This enables wineries to research guests, to control numbers better, to have the right staff on and to manage the quality of every aspect of the visitor experience better.

As you can see above, those wineries that insist on booking generally do better than those that don't. The US experience is even more clear cut. The 'by appointment only' model works best when seeking to sell wine above $50 per bottle. At these prices, it makes sense to keep full focus on the wine and not deviate off into non-wine focused 'experiences'. That consumer is, typically, an already qualified buyer.

Each year we keep a running check on what value specialised DtC staff add to a wine business. This year, our research showed that the average business with dedicated DtC staff generates 3 times as much revenue as businesses that do not. Those business with dedicated staff now average $A2.3Million in DtC revenue.

So, picking the right people based on the experience you are looking to deliver is critical. When we asked people at the end of the survey what their greatest challenge has been during the last 12 months, 'attracting and keeping good staff' remains at the top of the list.

As we discussed in the Wine Paper 68, there are many good strategies you can employ. But "what people to do what?" is perhaps the most important question in this context.

When I first started consulting to wineries about changing the way they do tastings, we saw, repeatedly, that when you moved away from the old tasting demonstration at the bar scenario to the seat, structured, paid tasting that sales increased by as much as six times.

It was tempting to believe, therefore, that there was something magical in having people sit down. This year's results, particularly in the Australian context, show no clear correlation between how the tasting is delivered and the amount of revenue generated.

It is not, of course, about where the tasting takes place. It is all down to who is conducting the tasting and how they are conducting it. The move to the table was simple the disruption needed to move servers out of the old sampling mindset and into a high-end hospitality and sales one.

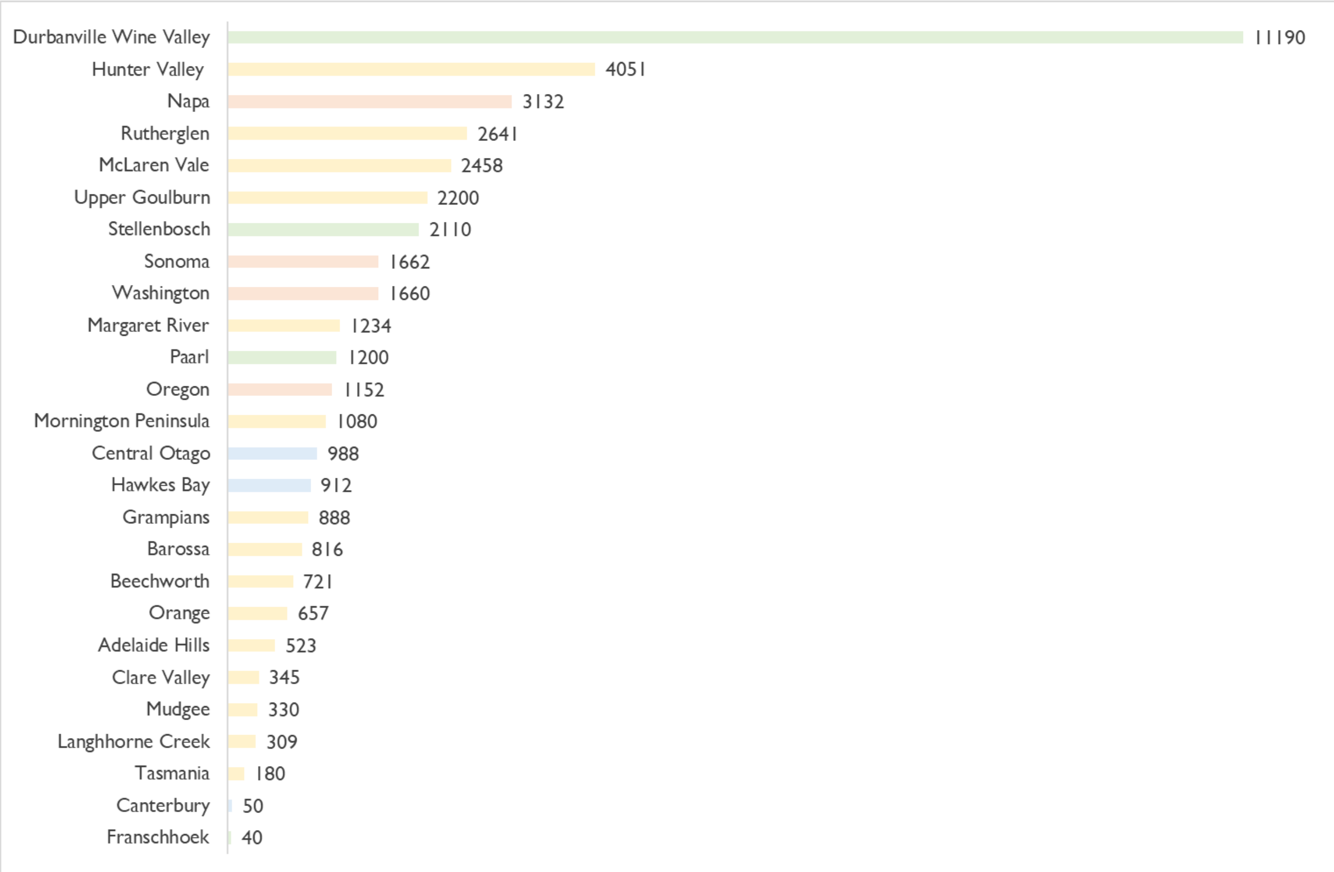
World class hospitality is, of course, not something that comes naturally to that person that was simply pouring and hoping previously.

That requires training and lots of it. Or a very high level of emotional intelligence. That is why it is generally more efficient to insource that via employing highest quality hospitality professionals to do this work.

The best operators I see are the ones who aim to attract and keep the best individuals. They can, sometimes, employ less people under that scenario and produce better customer engagements at that same time.

When you can increase revenue without increasing costs, now that is a model.

Figure 6 – Ave. Number of Wine Club Members by Region - US Numbers ex Silicon Valley Bank



Until this year's Taking the Direct Route report, we have always included a chart that showed the performance of those wineries that had a wine club or loyalty program vs those that did not.

This year, only one participating Australian winery and two South African ones did not have a wine club, notwithstanding that some South African businesses think about a wine club quite differently to what US, New Zealand and Australian businesses do.

Our definition of a wine club is as obligation to buy a certain amount of wine, based on valuable consideration given by the winery, whether that be discounts, access to an undiscounted allocation, time with key personnel, tickets to events etc.

The chart above shows that size of wine club is not about country or location but, purely, about application. Any business that is determined enough can have a quality core membership who drive DtC revenue and profits. According to Wine Direct, that 20% of their clients that generate 89% of sales had a database 4 times bigger than average. Our research shows 20-50,000, 50-100,00 and 100-500,000 case wine businesses all having roughly the same size of database on average. Now there's an opportunity...

Whilst having a primary place of customer acquisition, great cellar door staff and a 'wonderful' experience are all critical to DtC success, those people that work in DtC beyond the cellar door are the ones who drive most of the value out of that initial customer engagement.

As earlier mentioned, club sales are now worth more than cellar door sales in all markets that we have data on except South Africa where the idea of having a subscription program has yet to be fully embraced.

At the same time, certain South African wineries have adopted the benchmarks that we measure as their business growth drivers and have the best DtC businesses in South Africa consequently.

Now we can't take all the credit here. We modelled our questions on Silicon Valley Bank's in order that we compare data directly and inherited a lot of learning in terms of what questions to ask as a result.

That is why our workshops, our consulting and the report itself give so much focus to how to build DtC as an integrated part of a winery's sales, marketing and business strategy. The most successful of our clients use their cellar door and DtC follow up as the ultimate embodiment of what their brand stands for.

That is also why we review and rate all of the technology available for;

- POS (Point of Sale) The best opportunity you'll have for gathering information is when the customer is standing in front of you.
- CMS (Content Management Systems) Your web site backend should be your business's growth engine.
- CRM (Customer Relationship Management) The more seamlessly your CRM can capture and consolidate customer information, the lighter the load for your team.

via the report.

We received great support for the survey from New Zealand wineries this year, with the help of New Zealand Winegrowers.

We therefore plan to run workshops across the regions in February. Please just let me know if that is of interest. We are also fielding increased requests for consultancy and experiencing decreased time in which to do that so please be sure to schedule that as soon as you can.

As always, if there is anything else that we can help with, such as our Wine On-Premise USA 2023 report, please don't hesitate to be in touch. We're here to help you build a better wine business.

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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