Wine Business Solutions

The Wine Paper 74

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On-Premise Evolution

For most of you reading this, the On-Premise constitutes more than half of your wholesale opportunity.

Most wine (80-85% in most countries) sells for less than $15 in local currency. There is none of that on wine lists. You laugh, I am sure, thinking about that $100 plus bottle you felt pressured to buy at that increasingly successful restaurant group's lead outlet that wants the same trading terms as major retailers.

That wine, the below $15 stuff, is, in almost every way, an entirely different product category made by a very small number of producers, comparatively speaking, in huge volume. Still, around 20% of total wine sales volume is sold in the On-Premise (Restaurants, Hotels, Bars, Clubs etc.) You can do the maths...

Our research is unique. Other providers in this space look at restaurant turnover, spend per diner, spend by day, spend by drinks category, etc. We don't touch any of that. We focus solely on what is actually on wine lists. What brands, wine styles, regions and countries are winning, what price wines sell for by-the-glass and by-the-bottle and how much money producers and resellers can expect to make are the key focus.

Most important of all, is who got that wine on that wine list. We wanted not only to show buyers of our reports who the best importers and distributors are in each country but to discuss their strategies as well. We are consultants, after all, not simply researchers or industry analysts.

The originally unintended consequence of that is that we now have many of the leading distributor businesses as clients. We regularly run strategic review and opportunity identification sessions for them. We, of course, learn a lot from them as well.

For many of our most successful clients, On-Premise distribution points are their single most important sales lead indicator. Brands like Shaw and Smith (AUS), Craggy Range (NZ) and Creation (SA) know that distribution quality and reach are the most important determinants of brand success outside of the cellar door. I say 'cellar door' like it's a given but these brands' are amongst the best in their respective countries.

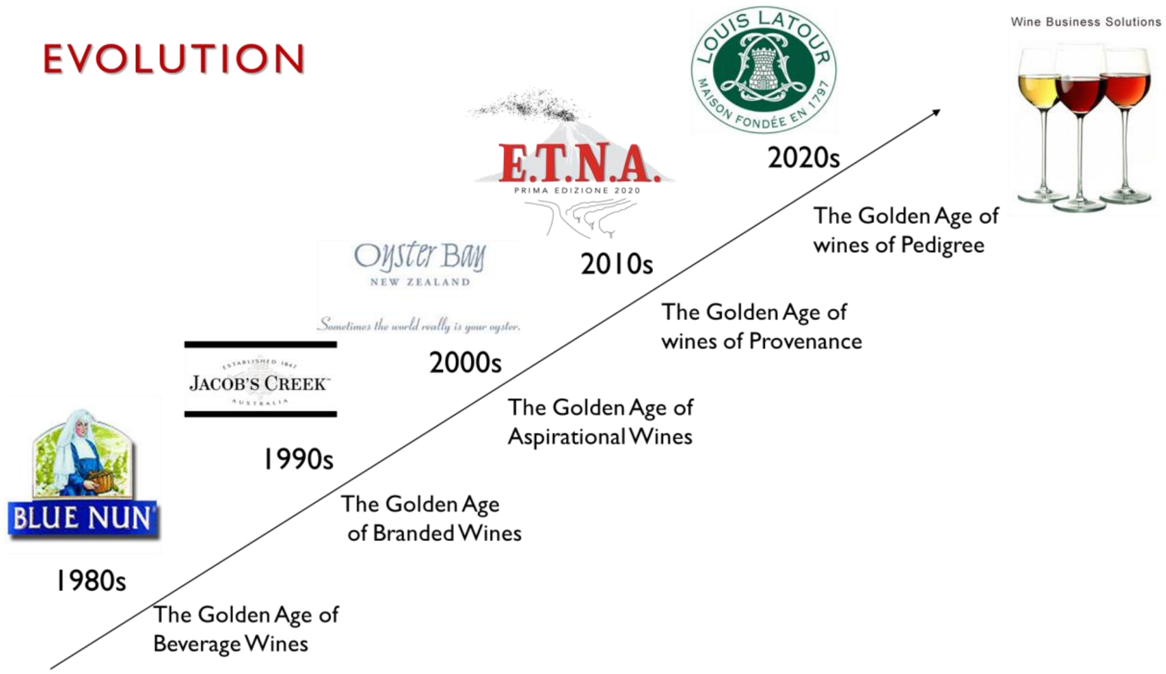
Not only can we see changes in the On-Premise coming from a long way out using this research, but changes in the off-premise inevitably follow. Just 10-15 years later in a lot of cases. Other changes, especially where the so-called Aspirational segment is concerned who buy in the $15-20 zone, happen at light speed. We can think of categories like Prosecco and Rose where massive merchandising presence in retail helped propel huge growth. When I saw that all French Rose was one colour at VinExpo 2013 the next 10 years were predictable. Big brands like Penfolds (with their black and red) leverage Duty-Free in the same way.

Most of you reading this are not in the business of paying massive fees to major retailers and duty-free operators to make this happen so understanding distributor selection, distributor management and on-premise brand building are going to be the most important skills to master, outside of your direct sales.

These, of course, are the themes of [our workshops] that begin in New Zealand in February, continue in South Africa in April then roll out through Australia and other parts of the world during the rest of 2024.

So then, what are the biggest changes we have seen in the On-Premise and what are we likely to see happen next? We've been monitoring what's on wine lists globally since 2008. This gives us the chance to look at up to 15 years of data in order draw conclusions.

Figure 1 – The Evolution of the Global Wine Industry



Anyone who has attended our workshops or watched our webinars would have seen something like this. This isn't general speculation. This is what our data confirms. But it's not only our data. LivEx, the lead commentator on and researcher of auction wine globally has Louis Latour as the fastest mover in its 'Power 100' from outside last year's list. When I started suggesting to Australian makers of Chardonnay that they go to Dan Murphys and buy everything that Louis Latour makes, some looked at me like I had two heads.

I got a similar reaction 10 years ago when I suggested that there might be an opening for medium-weight wines that were more savory in palate profile and worked better with food. As we shall soon see, Italy drove a flying wedge through that opening.

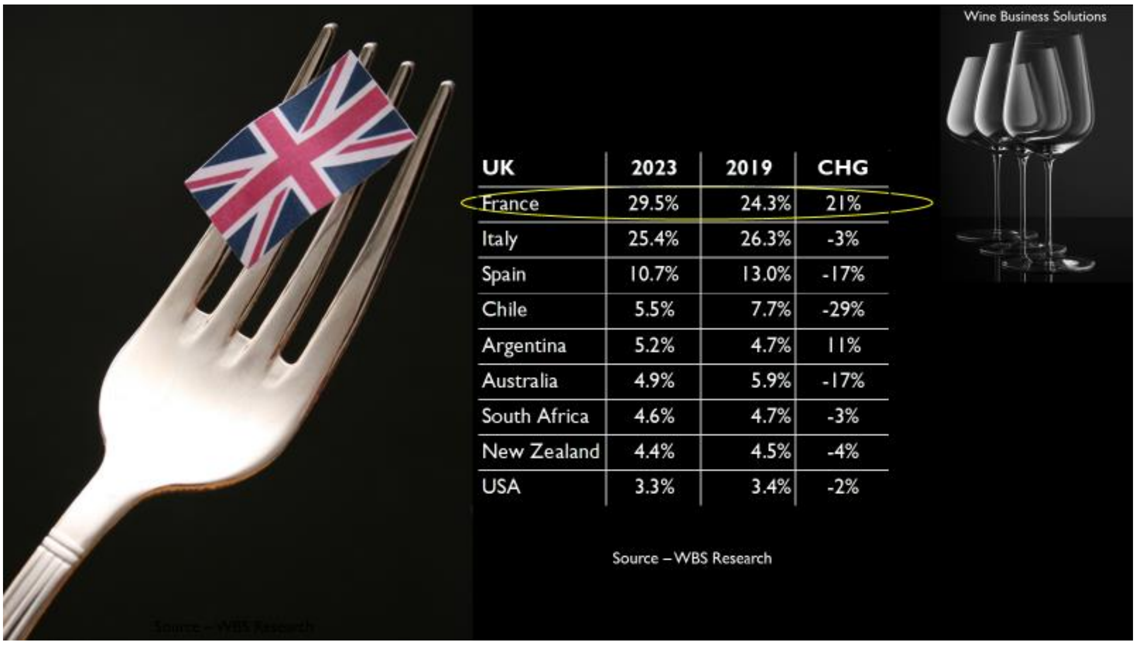
In preparing a strategic review for a major distributor client, I pulled together a database of over 200,000 listings taken across Australia, the UK, the US and Canada. As the market least influenced by its own production, I always like to start with the UK. It is the true 'litmus' for wine brands globally.

Everyone from everywhere wants to succeed in the UK, even if 2800 attendees of ProWein in 2018 voted it the worst market on earth to do business and likely to stay that way. It is, after all where the idea of the modern wine trade originated. The Court of Master Sommeliers, the Master of Wine, the international wine auction trade, and, most importantly, wine journalism as we know it today, all have their origins here.

Figure 2 – Change in Share of Listing by Country 2023 vs 2013, UK

UK	2023	2013	CHG
France	29.5%	36.9%	-20%
Italy	25.4%	18.3%	39%
Spain	10.7%	9.5%	13%
Chile	5.5%	8.1%	-32%
Argentina	5.2%	4.1%	28%
Australia	4.9%	6.5%	-25%
South Africa	4.6%	4.7%	-4%
New Zealand	4.4%	4.7%	-8%
USA	3.3%	2.6%	28%
UK	1.5%	0.8%	93%
Portugal	1.5%	1.5%	-1%
Germany	0.9%	0.5%	81%
Austria	0.8%	0.6%	39%
Romania	0.3%	0.1%	160%
Others	1.4%	1.0%	34%

Figure 3 – Change in Share of Listing by Country 2023 vs 2019, UK



UK	2023	2019	CHG
France	29.5%	24.3%	21%
Italy	25.4%	26.3%	-3%
Spain	10.7%	13.0%	-17%
Chile	5.5%	7.7%	-29%
Argentina	5.2%	4.7%	11%
Australia	4.9%	5.9%	-17%
South Africa	4.6%	4.7%	-3%
New Zealand	4.4%	4.5%	-4%
USA	3.3%	3.4%	-2%

Figure 4 – Change in Share of Listing by Country 2023 vs 2013, Australia

Australia	2023	2013	CHG
Australia	60.8%	75.5%	-20%
France	13.2%	8.9%	49%
Italy	13.1%	2.7%	377%
New Zealand	6.5%	10.4%	-37%
Spain	2.4%	0.9%	153%
Argentina	1.0%	0.4%	179%
USA	0.7%	0.2%	372%
Germany	0.5%	0.3%	40%
Greece	0.5%	0.0%	836%
Portugal	0.5%	0.1%	524%
Austria	0.4%	0.3%	37%
Chile	0.1%	0.1%	-3%
Hungary	0.1%	0.0%	1771%
South Africa	0.1%	0.0%	114%
Others	0.2%	0.1%	124%

Figure 5 – Change in Share of Listing by Country and Major State 2023 vs 2022, Australia

Source	2023	2022	CHG
SA	27.5%	28.2%	-2%
France	13.2%	11.4%	16%
Italy	13.1%	13.0%	1%
VIC	12.7%	13.4%	-6%
WA	8.8%	9.1%	-3%
New Zealand	6.5%	6.6%	-2%
NSW	5.2%	6.3%	-17%
Tasmania	4.3%	4.4%	-2%
Spain	2.4%	2.4%	-1%
SEA	2.1%	1.6%	33%
Argentina	1.0%	1.3%	-20%
USA	0.7%	0.3%	155%
Germany	0.5%	0.3%	43%
Greece	0.5%	0.4%	26%
Portugal	0.5%	0.5%	-2%
Austria	0.4%	0.3%	27%
QLD	0.1%	0.1%	-14%

Note – SEA means otherwise non-appellated wine from South Eastern Australia

In the 10 years between 2023 and 2013, Italy increased its share of UK wine listings by 39%. In the four years between 2019 to 2023, the tide turned. France increased its share of listings by 21% and regained top spot. In the USA, Italy grew by 31% from 2016 to 2023 but in the last year, France grew by 19%. Same in Canada. Italy grew by 36% between 2013 and late 2022 but France grew 16% between 2018 and late 2022.

This all pales in comparison to what happened in Australia. Italian listings increased by nearly four times between 2013 and 2023 and in the last year, French wine listings still grew by 16%. Meanwhile, in the ten years from 2013 to 2023, Australia went from having more than 75% of listings on its own wine lists to barely 60%. New Zealand listings on Australian wine lists are half what they were at the peak in 2011.

So, what's going on?

When I talk about Italy's success, Australian winemakers, generally, laugh in my face. The guys I am talking about are not just my best clients but, these days, among my best friends so I should clarify that this is not being directed at me personally and done in jest in our very particular Australian way.

What they are saying without needing to say anything at all is "Those wines are being bought by a bunch of pretentious easily affected idiots who don't know how good my wine actually is!"

My first thought is "Well, you're obviously not drinking those wines then because they are flipping amazing".

Then you look at the most listed Australian wine brands on Australian wine lists and it really is strong versus the most listed imported brands which are generally 2nd or 3rd rate. You then have six weeks of shipping across the equator and the massive markup all intermediaries put on wines when their ex-cellars price is unknown. You then start to question your own judgment. Until the next time you try Italian wine.

So, what happened to Italian wine? Talking to Italian Australian winemakers, the message I get is, "It's not fair, all those subsidies they get". Research into subsidies in the border agribusiness sector shows that New Zealand, closely followed by Australia, has the lowest subsidies on earth yet are amongst the most competitive and efficient. Bad wine at a cheap price is still bad wine. Likewise, investment in country and regional branding. That alone won't change anything in a sector as sophisticated as the global On-Premise.

The secret, as we discussed in The Wine Paper 67, lies in Italy's whole of region quality upliftment programs.

I lived in Tuscany for two months in 2004. You would not believe the state of viticulture then. There were white grapes planted with red grapes, great holes in vineyards (there is a regional superstition that you can't plant a vine where one has died previously) and grapes left to grow over buildings, up power polls, etc.

Leading viticultural consultant Alberto Antonini described to me what happened next. They took the vineyards up into the hills, out of the valleys, orientated them correctly, spaced and pruned them so as to optimise both aspect and light absorption. They then, of course, had to adhere to strict DOC / DOCG cropping limits. They managed to produce consistently good red wine and sold it at the correct price.

It's hard to find a bottle of Chianti today that doesn't meet a minimum high standard. And that really is the trick. It's never about how good your best is but how bad is your worst bottle. So, whilst the New World used to laud how its freedoms facilitated great innovation, you need consistent quality to build brand trust.

The key factor that changed how wine is sold in cities like Sydney, London and New York is restaurants taking back responsibility for what is on their lists. We can think of this as the 'MasterChef' effect. Once restaurant clients became sophisticated enough, on mass, to care about the provenance of everything they were consuming, restaurant owners had to be able to tell a provenance story, and a pallet profile story as well, about every wine on the list.

Restaurants' capacity to do this varies but when good wine lists started turning up in returned servicemen's clubs in Australia, for example, we were pretty much there. Being able to sell a bottle of wine was no longer the exclusive domain of sommeliers in Michelin-starred restaurants.

Prior to this, we had this insane situation where lists were organised by varietal and the customer was expected to choose. The mathematical probability that any of us know that wine from that vintage from that producer is, of course, close to zero. This required the poor person with the list, in concert with the other guests, to undertake this awful charade that is thankfully, a lot less common in better restaurants.

That enabled a vast amount more creativity as diners got to drink, pretty much what they were told to. This requires a deal of trust, trust that some seem happy to abuse. Restaurants, globally, are taking advantage of the opportunity that inflation brings to jack up their prices. The UK (+9% '22 vs '23), Australia (+10%) New Zealand (+17%), and the US (up a whopping 30%), in terms of the average bottle price, show that restaurants as a sector, globally, are net contributors to inflation rather than simply responding to it.

As restaurants made one positive discovery after another moving through the lesser-known regions of Italy, that country's stocks only strengthened. At some point, however, experimentation gives way to 'best'.

At that point, all advantage fell to France. When you own 'best' across such a large range of wine styles, you become very hard to compete with. When the market takes off, as it did post-COVID, if you owned the idea of best in a category and people choose to spend, then you win. Big. Equally, LiveEx confirms that as cost-of-living pressure starts to bite following the great 'wine spending blitz', people are becoming more conservative and are retreating to Bordeaux at the expense of Italy, (other than Tuscany and Piedmont) and California about which more questions concerning value are being raised every day.

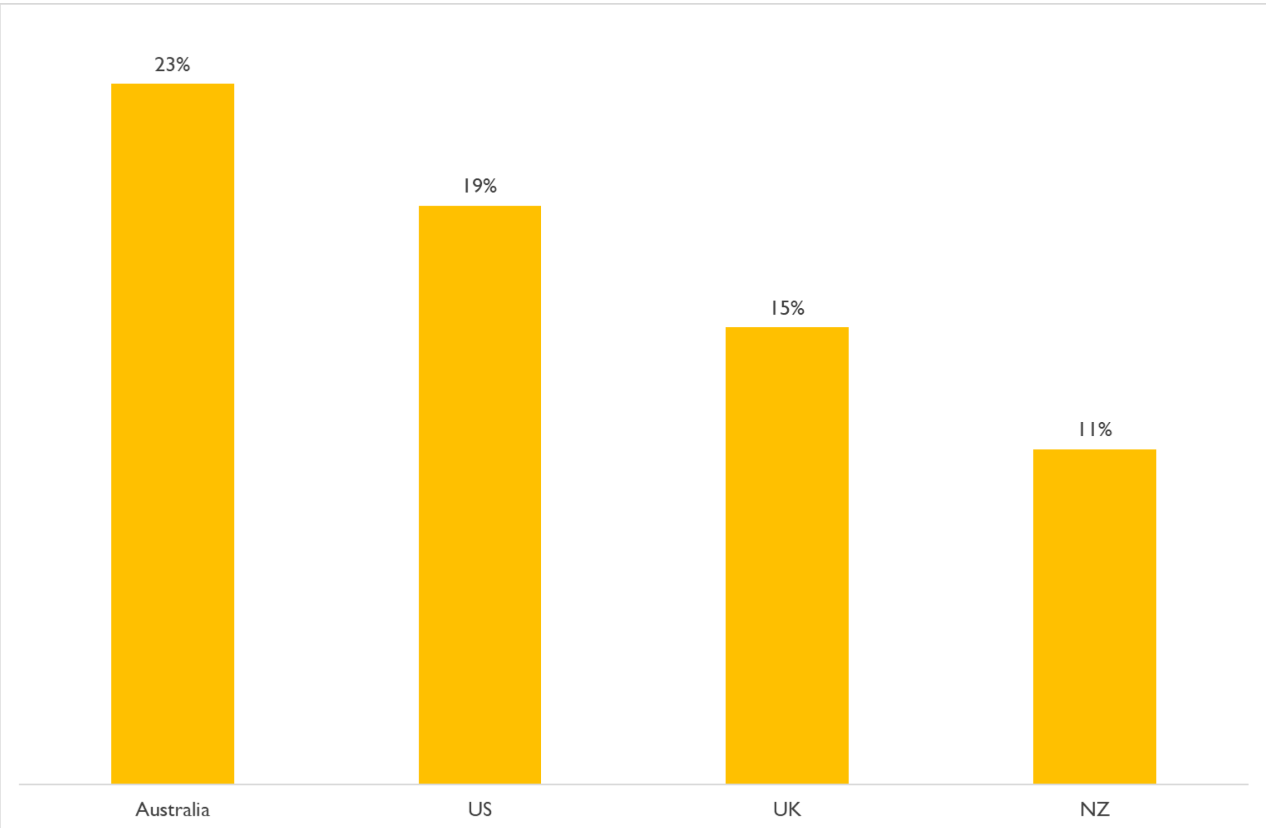
This was the battle I was having with NZ Winegrowers. As the 'shift to best' effect took hold (and I say 'effect' rather than 'trend' most deliberately) Loire Valley Sauvignon Blanc was replacing Marlborough everywhere you looked, except the US which is still in the adoption cycle.

New Zealand Sauvignon Blanc remains incredibly robust as a category, all the same. Indeed, it is the only wine category that we've seen go 'over the hump', as it were, in terms of the things that normally would signal long-term category decline, and somehow pull out of that.

It was no accident. For a start, NZ Winegrowers pulled in some excellent quality marketers. As we have already said, this, on its own is not enough. The Appellation Marlborough movement is doing much to restore confidence. Three of those brands, Astrolabe, Babich Black Label, and Greywacke were in the Wine Spectator Top 100. This is a 'value-based' list, however, and underscores how underpriced the category still is in the US. Finally, and I think most importantly, Craggy Range is now such an important On-Premise brand globally that its more gastronomically orientated Martinborough wines are changing perceptions about the NZ category across the board.

Of course, there was a little bit of luck. Luck that Mendoza and Malbec had with their timing entering the world stage. They got to evolve their style just before they got tagged with being overdone. That luck escaped Australia. Cooler climate Australian Shiraz is perhaps the wine world's great untold story. At home in Australia, it's Grenache that is getting all the attention as the style that can claw back some of those earlier mentioned losses to Italy, to the Rhone, and to Spain.

Figure 6 – Change in Share of Chardonnay Listing by Selected Countries, 2023 vs 2022

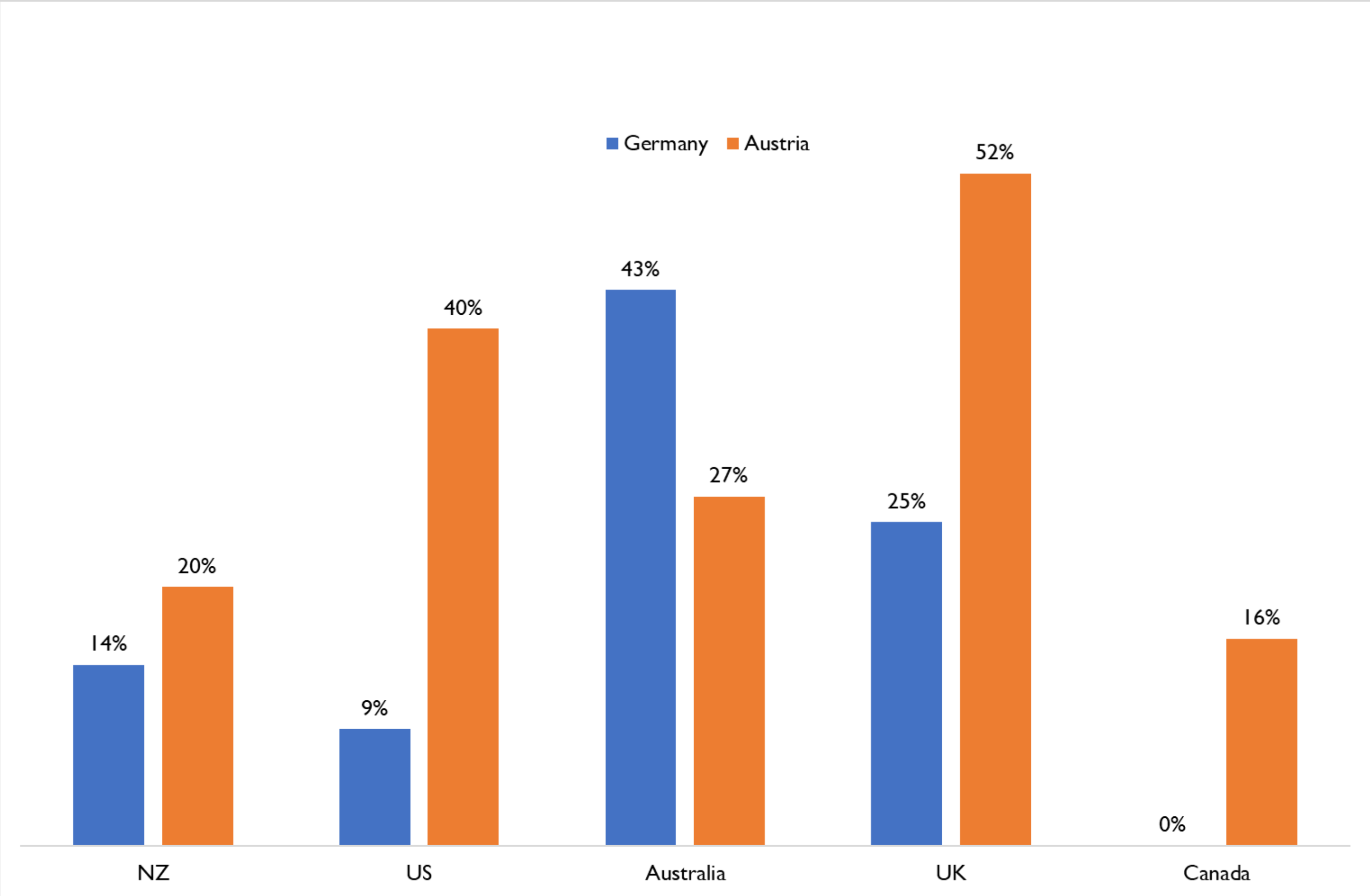


Leading Sauvignon Blanc as the most listed White Wine style, however, is Chardonnay. Only in New Zealand, of all the markets that we measure, does Sauvignon Blanc have more listings and then not by much.

It's probably not politically correct to talk about the positive effects of global warming but a series of good vintages in Burgundy from 2015 onwards has done wonders to change people's opinions about Chablis. Someone cynically said to me the other evening "So, Chardonnay's back again, now, is it?" That would be to miss the point completely. These are not fashion fads. These are indicators of increasing market sophistication and positive category evolution.

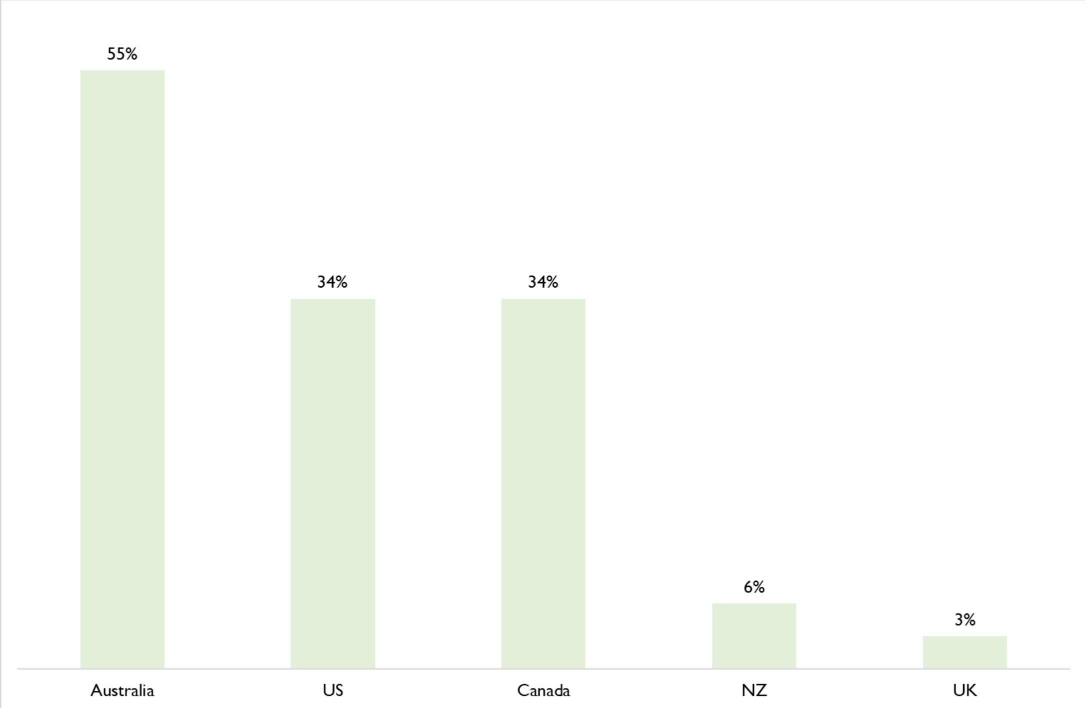
Likewise, I could never understand why the UK was so resistant to Riesling. I can understand not wanting to forgive the Germans for Liebfraumilch. But that was a very long time ago. Finally, the consumer audience and the restaurants that serve them have caught up with German / Austrian Reisling and, of course, Austrian Gruner Veltliner.

Figure 7 – Change in Share of Riesling Listing by Selected Countries, 2023 vs 2022 (Canada 2018 vs 2022)



Both countries experienced massive growth in listings during the last 12 months. This is also born out in export statistics. Regular readers will know that I am a great proponent of The Austrian Wine Marketing Board's global premium brand-building strategies. All those years of investment in having their representatives talk to sommeliers across the globe finally comes to fruition.

Figure 8 – Change in Share of White Blend Listing by Selected Countries, 2023 vs 2022 (Canada 2018 vs 2022)



The other area showing huge growth in all markets is White and Red blends. Australian legendary winemaker Steve Pannell once famously said that if you want to sell White Blends, then you had better prepare yourself a nice clean space on a wall so you can bang your head up against it.

Again, if it results in better, more interesting wine, then it is just a matter of waiting for the market to catch up. It's just that sometimes it takes longer than everyone would like or predicts. In other situations, like when we saw Italy coming, how hard and how fast was beyond what we ever imagined.

Where does that leave us in terms of what the next big thing might be? The world of wine is an amazing place. There are still little-known countries out there with huge numbers of indigenous grape varieties, incredible wine cultures, and fascinating cuisines. Whilst the wine world gets sidetracked by No and Low-Alcohol, competition from other drinks categories, ESG demands, declining commercial wine consumption, etc. there remain so many wonderful discoveries still to be made.

WBS worked on the country strategy for Moldova. There, we recommended blends containing their incredible indigenous varieties as the lead edge of the wedge. We expect other emergent countries will follow suit. We are also working with leading Georgian producer Tbilvino. As the natural wine story runs its course, expect well-made Qvevris wine to step in as a whole new category ideally suited to many styles of healthy cuisine. Could it be that the recently aired [CBS 60 Minutes feature on Georgia] is the catalyst for a turnaround in the American market like 'The French Paradox' was? We'll have to wait and see…

Merry Christmas all. I hope you have a wonderful break and, as always, do be in touch if we can help.

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

Phone +612 9744 8332

info@winebusinesssolutions.com.au

http://winebusinesssolutions.com.au