Wine Business Solutions

The Wine Paper 75

March 2024

On Leadership

Texts are pinging. WhatsApp is dinging. “Hey, Pete! Have you heard? Jeremy Oliver has exploded!!!

People often compare me to Jeremy, but I don’t think that’s fair. On Jeremy.

I am at best, a concerned resident with a great love for the wine industry and an international perspective. I was once told by the EO of an Australian State representative body that I needed to “pick a side”. I did. Wine. For when ‘wine’ gets better, we are all winners. That probably sounds like some sort of cynical, shallow platitude, but I am very serious. I’ll explain what I mean shortly.

I have never once accepted a project involving olive oil, beer, spirits, or anything other than wine. It’s not that I consider wine more ‘worthy’. I just believe that if we’re to do the best possible, we all need to focus.

Further, if I’m to usefully advise on this global business, then I need first-hand engagement, as well as proprietary research, that is global. And it’s more fun, let’s not pretend otherwise, to have friends in every corner of this ‘great big, wonderful wine world’ that is perhaps not so wonderful for some in Australia now.

Jeremy, on the other hand, is the absolute heart and soul of the Australian wine industry. Rather than just being part of it, he is woven into its very fabric. He has fought for it for over 40 years. The likes of me are not worthy of comparison. It’s no wonder that with the Australian industry imploding, Jeremy is exploding.

If his response to the draft of the One Grape and Wine Sector Plan was subdued, in his assessment, like the first rumblings preceding a cataclysmic seismic event, then his reaction to the open letter from the so-called Future Leaders not only blew the lid off Vesuvius, so to speak, it rained down on its authors like angry molten magma. Fire and brimstone!

And, I believe, with good reason. Firstly, you cannot lead without direction. You cannot win on the battlefield without clearly setting out the objective. So, when Australian Grape and Wine says that it is up to individual businesses to set their own goals, I agree that that is a complete dereliction of duty.

When the Future Leaders confuse making the wine industry more ‘Woke’ with the actions required to sell more wine, then it is easy to understand the rage. Yes, all those things that they suggest the industry should be are right and good. But they are simple requirements. They are the right thing to do. They are the essentials of doing business going forward. They won't sell one more case of wine. That requires leadership. And it’s not exactly like the wine industry is some sort of fascist regime. You’re artists, after all, aren’t you?

Most in the Future Leaders group probably haven't seen a genuine leader. They could, perhaps therefore, be shown some leniency, though I am not sure Jeremy would agree.

I was there when Brian Croser stood up before the entire industry who, in those days, could fit into the Hilton Hotel ballroom in Adelaide. He announced that by the year 2000, Australia would be exporting $ABillion worth of wine.

It was 1991 and exports were a paltry $A110 million. We nerdy wine business types got out our calculators and slide rules. None of us truly believed that it would be possible. That goal was achieved in August 1999. By mid-2003, $A2.3 billion worth of wine was being exported, a mark that has never been eclipsed.

That was right before I found myself presenting at a global manufacturing conference held at Lake Como (academics always know how to organise the best junkets). I was holding out the Australian wine industry as global best practice in terms of collaborating behind the scenes to be globally competitive.

Australia had a plan, a vision, and, critically, a number it was chasing down. Importantly, Australia identified the key factors that it needed to beat competitors, rolled them into an index, and could, near as, prove that they were winning. Just like you would do if you were coaching a professional sports team. Taking the approach of current so-called leadership is like saying "Just go out there, do your best, try to have fun, and be nice to everyone." Not exactly the fierce competitive spirit that Australians are famous for…

Figure 1 – Benchmarking of Australian Competitiveness. Source Aus. NZ Wine Industry Journal (circa 1996)

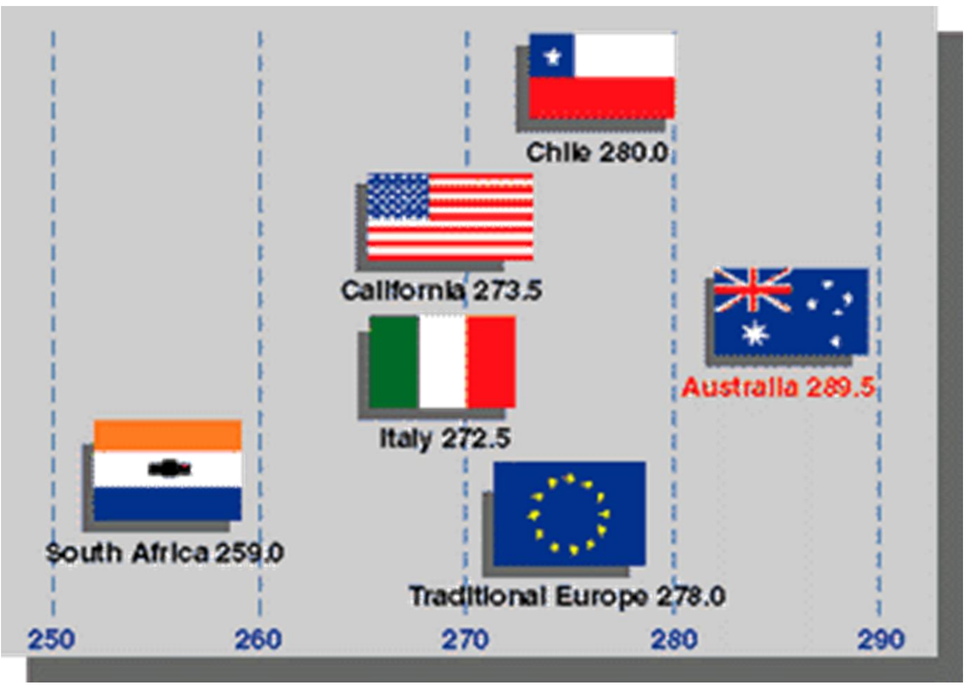
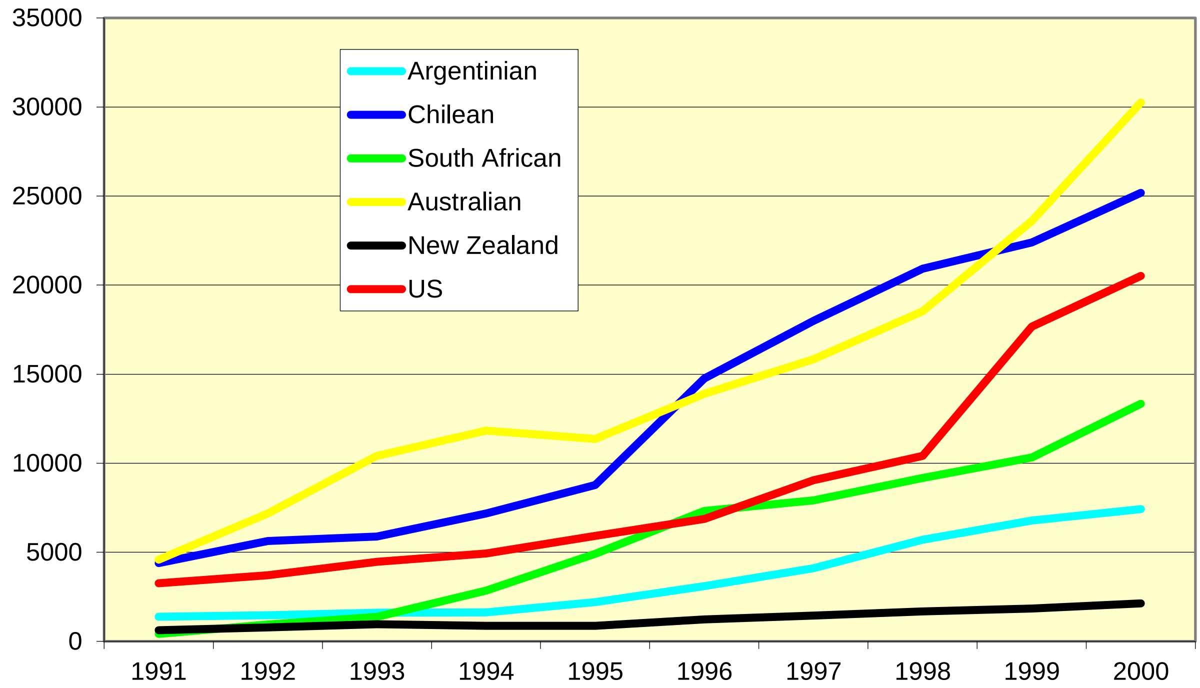


Figure 2 – New World Wine Exports (000s (Litre Case) Source, IWSR. (Dodgy slide from ancient slide deck).



Of course, we all know what happened next. Industry wide strategic planning had worked so well that a plan to 2025 was developed. The necessary grapes were planted in just 3 years and the industry collapsed. Instead of blaming the causes which included badly judged government incentives to plant, planning itself was blamed. Australia led the world in terms of sharing global business intelligence. That too was silenced.

This was so profoundly stupid that it still angers me to this day. The point of ignition for Jeremy is that not only has nothing changed in a generation, but the next generation seems no more willing to embrace the hard truth either.

That hard truth is that, in the absence of said clear direction, strong leadership, goal setting, and benchmarking, Australia has, one after the other, spectacularly collapsed its key markets in a way that no other nation has.

China simply followed the path of the US and the UK. If it wasn't for an errant foreign minister mouthing off and offending our Chinese 'friends' for whom 'face' is everything, it seems Australia would have found some other way to collapse its last major emerging market hopeful. Indeed, Australian research (by Kym Anderson) shows that the seeds of market demise were already sown by 2017.

Whilst I cannot improve upon Jeremy's consummately well-articulated and near complete list of the ways in which Australia has 'totally stuffed up', what I can do is provide some guidance in terms of what can be done to dig Australia out of the quagmire that it currently finds itself in.

Figure 3 – Exports of Australian wine to the UK $AMillion. Source, ABS

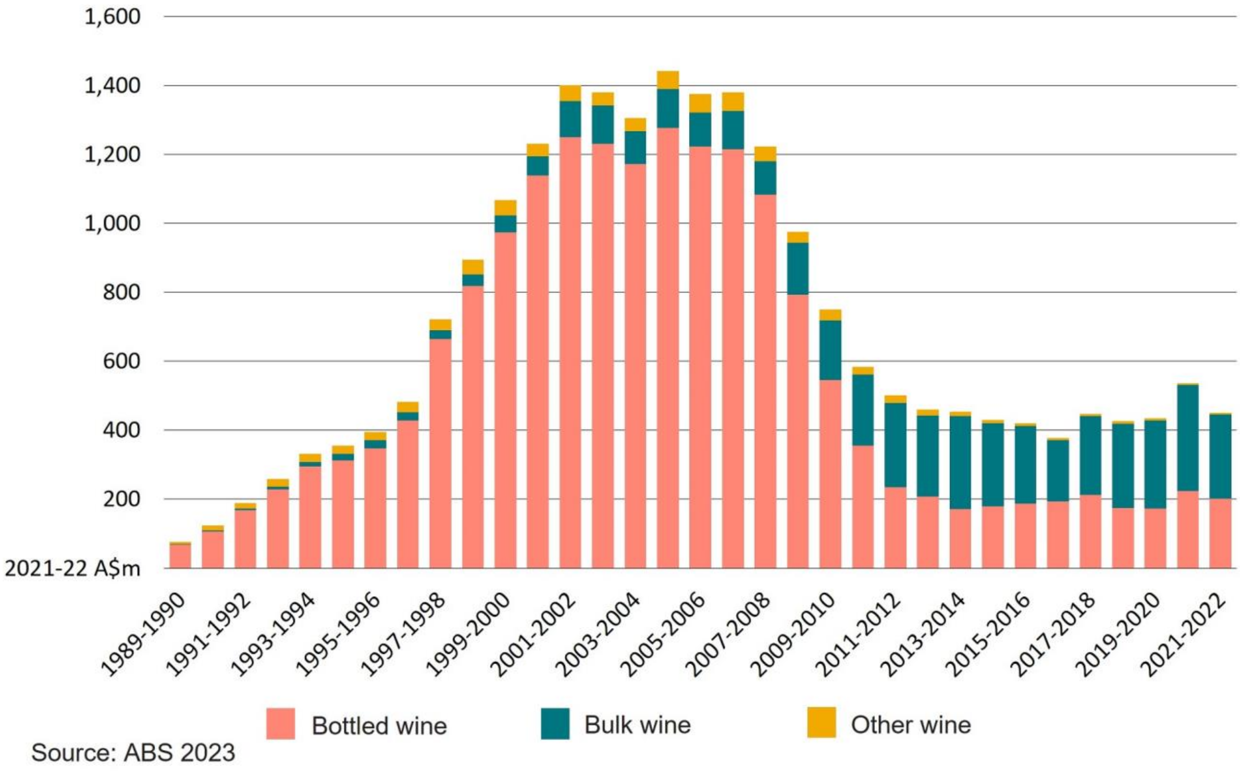
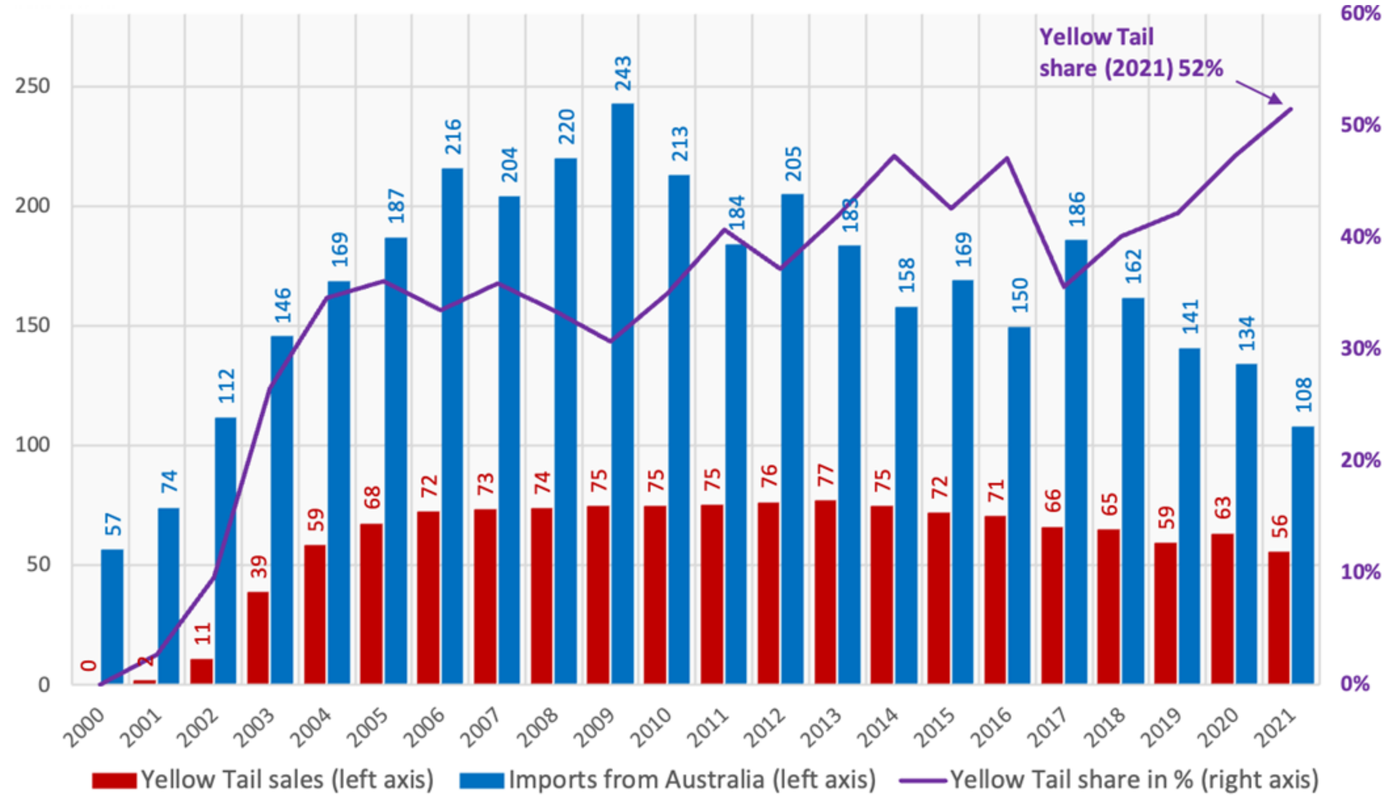


Figure 4 – Exports of Australia wine to the US Millions of 9 Litre cases. Source, AAWE Wine Economics



First and foremost, someone needs to stand up. It can't be me or anyone like me. It has to be someone from within the ranks. Someone who can see the challenge and the opportunity with complete clarity, who gets how all the players must play together and who can lead the industry towards a clearly defined goal.

Penfolds stands alone. It is its own thing. It is good for TWE shareholders and the people who can drink it. It does nothing for the Australian wine brand other than have its competitors wonder how they can have some of that.

The rest of the commercial end of Australia is up for grabs. Bain Capital and partners are talking to everyone. We have to assume that a deal will emerge eventually but where is the value? Outsiders talk about consolidation like efficiencies are a given but how do you consolidate disparate production facilities in a way that releases value? WBS advised on the consolidation of Wellington and Wamakersvallei co-ops in South Africa. That involved pulling down a fence. Their wineries almost touched each other. In Australia, we are generally talking about big old sheds in remote locations.

Yes, there is an excess of stainless steel. But who needs to buy it? The dairy industry? You are then left with consolidation of the administrative functions which, for listed wine companies, represents no more than about 4% of revenue. The best hope would have been for more Australian wine, sold in Europe, to be pumped through Accolade Park. But that has already been flogged off.

We should not hold our breath waiting for Private Equity to come up to the rescue. The world may have reached 'peak consultant' with the scandal surrounding PWC Australia reverberating around the world. It is about to reach 'peak Private Equity' as a deluge of YouTube exposés highlights the truth.

Simplifying, Private Equity tells the world's biggest investors (pension/superannuation funds and the like), that they are so much smarter than everyone else and so deserve a healthy premium for the investor return they will generate. The evidence says otherwise. PE does no better, on average, than the stock market. They then load up acquisitions with massive debt that they are not responsible for. Witness the Carlyle Group and Accolade. All the while they rip huge fees out in a largely unregulated, until now, way. Genius.

Sometimes it works. Champ Private Equity buying what became Accolade from Constellation for a quarter of a billion and selling it for a billion was a master stroke. It is a long way, however, from the norm. And in the normal case, as just explained, private equity wins anyway. Meanwhile, growers in irrigated areas of Australia are having their livelihoods destroyed.

The one area where I don't completely agree with Jeremy is there being no place for commercial winegrowing. Quoting Jim Moularadellis, one of Australia's biggest bulk wine traders, "We can broadacre farm grapes as efficiently as anyone." South Africa still manages to undercut everyone by some margin.

Given the structure of the Australian industry, there will always be a requirement to sell bulk wine and low-end bottles. Even the world's biggest and most successful producer, France, does all it can to minimise this, particularly in export markets where image is built. There is a conscious and successful strategy operating. Yes, there are problems in France but these are regionally specific. You need to view the key regions individually to get the full picture. Bordeaux's problems are not Burgundy's.

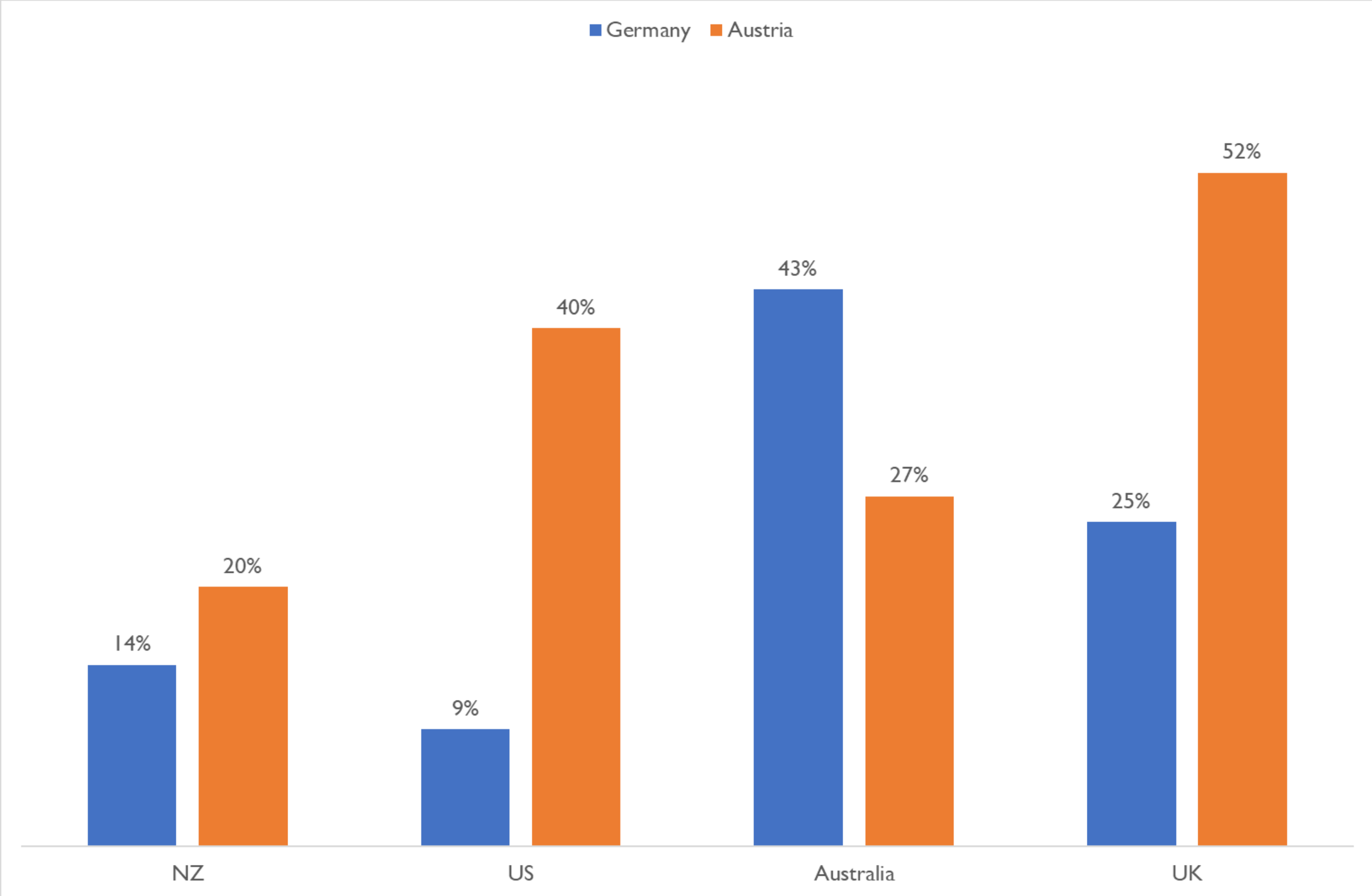
What action is required? The single most important thing for large Australian producers to do is not to force product into channels that it was never supposed to be in. To get out of their own way, as it were.

Figure 4 – The Top 20 Brands Share of Listings – Source, WBS – Wine On-Premise UK 2024

Brand	2024	2023	CHG
Berri Estates	3.8%	3.6%	6%
Berton Vineyard	2.9%	4.0%	-28%
Hillville Road	2.4%	1.2%	103%
Deakin Estate	2.2%	2.4%	-10%
Old Gum Tree	2.1%	0.4%	394%
Last Stand	2.0%	0.2%	845%
First Fleet	1.6%	2.5%	-36%
Jim Barry	1.6%	0.6%	158%
Andrew Peace	1.5%	1.4%	12%
De Bortoli	1.5%	0.6%	143%
Short Mile Bay	1.5%	2.0%	-23%
Jam Shed	1.4%	1.9%	-24%
Between Thorns	1.4%	1.6%	-14%
Pikes	1.3%	0.8%	50%
The Paddock	1.3%	0.9%	34%
Thorn-Clarke	1.3%	0.4%	201%
D'Arenberg	1.2%	1.1%	12%
Dry River	1.2%	0.0%	
Fowles Wines	1.2%	1.3%	-7%
St. Hallett	1.2%	1.6%	-26%

It's a theme that regular readers have heard before. Still, our Wine On-Premise UK 2024 research shows this only getting worse. The irony is that almost all this wine is not wine that can be found on Australian wine lists. Australians wouldn't drink it. Conversely, we can see the boom that took place globally, between 2022 and 2023, where Austrian and German wines are concerned, resultant of a well thought-out, well led and clearly articulated global On-Premise strategy.

Figure 5 – Share of Listings of Austrian and German wines 2022 vs 2023– Source, WBS



The next piece of the puzzle is the so called 'Aspirational' customer. With the blame being shifted all over the place, everyone seems to have overlooked the main reason that the Australian wine industry failed in the 2000s. As the dominant consumer globally shifted from being the branded wine buyer to someone a little more aspirational, Australia (and Chile and South Africa) forgot to have a product for that person.

There was no Italian Pinot Grigio or Prosecco, no Marlborough Sauv., no French Rose, no Argentinian Malbec even. Medium to large Australian companies chose to ignore this fundamental change and persisted with the model that worked so well in the 1990s.

By 2010 the centre of gravity had shifted upwards and wines of provenance were driving. Finally, the chance to step over the missed opportunity of the 2000s and lead with Australia's amazing regionally based wines. A quick review of who is exhibiting at Prowein this year, however, reveals how we are continuing to slip further away from that opportunity. Nice dressing up by Wine Australia. But a hard sell given the substance.

There are some wins on which to build. You will notice from this year's data that key Australian producers of Reisling such as Pikes and Jim Barry have established a beachhead in the UK. You also have the likes of James Suckling agitating for Margaret River to be recognised as one of the finest regions on earth for Chardonnay and Cabernet. And there is the yet-to-be-discovered wonders of new style Grenache.

There are businesses that have taken matters into their own hands. When Jackson Family Wine Estates marched into McLaren Vale and saw the total lack of focus and direction resultant from everyone believing they had to do something different in order to compete, they laid down the gauntlet.

They realised that no region could win without doing what they do better than anyone else on earth and that wasn't making Barossa Shiraz. Through reinventing Grenache and taking a quality and price leadership position, Yangarra rapidly became the most listed McLaren Vale brand in the Australian On-Premise. They lit the way for everyone else.

What if you reading this say – "I get it. I see what we could be. I'm not going to stand for this anymore!!". Here's some of what you need to know. Getting on to the relevant board is easier than you probably think. Those who get just how hard you have to work are, typically, 'wise' enough to stay well clear.

The key is to be able to make stuff happen when you are in that role. That will require 2-3 times as much effort, at least, as getting anything done in your day-to-day business.

There was a moment when I was Chairman of Wine Marlborough when the core of good people was about to give up. Thank God we had Ivan Sutherland (Cloudy Bay and Dog Point) on our team. Ivan, as I have written about before, was an Olympic Rowing Gold Medallist and Coach. He knew it was about putting 'the oar in the water, one stroke after another' and never relenting. He and I, at least, believed that it would all be worth it in the end. We convinced the others to hang in. Marlborough flourished.

The great thing about what I do is that everything you do adds to your understanding. The downside is that you, therefore, reach peak usefulness at the point at which you are about to leave the industry.

I have, despite always seeking to be optimistic over time, hardened my outlook where perhaps the most important thing in politics is concerned. These days, I'm inclined to side with Niccolò Machiavelli's view that one should see the world as it is rather than as you would like it to be.

I have so often seen the good and the brave undermined because they thought that logic and reason would win over the majority of people who supposedly understand the value of the common good. You have to go into such a fight knowing that you cannot rely on that and that you will have to work harder than you ever thought possible to dissuade people from sort-sighted self-interest. If you are up for that, then 'your country is calling'. If I can help in any way and as always, 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 of 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