

Wine Business Solutions



The Wine Paper 77

October 2024



Artist's Impression of Tbilvino's New Rammed Earth Qvevris Cellar, Kakheti, Georgia

Your Brand's Home

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Your brand home is likely to be the most important investment you will make.

It's also, probably, the subject area that our business can best advise you on.

I was given the job of founding Chair of the [World's Best Vineyards](#) because, in 2004, my wife and I took a year off with the aim of visiting every major wine region on Earth. (Apologies to Mendoza. There will be a game of rugby there that will compel me and good friends to tick the last box off that list soon enough.)

The owner of the WBV competition, Andrew Reed, figured that, consequent of our sojourn, I might have one or two connections that would be useful when pulling together the team of Regional Chairs. (*Full disclosure - the voting procedure ensures that I can have no effect on the outcomes of the voting process.*)

He was right. You never realise the extent and value of the network that you build up over a lifetime until you get given that type of challenge.

Not only was our 2004 trip the best sort of experience imaginable but my wife, who doesn't drink, got to discover that wine regions and the best places to visit for food, culture, art, history and the most beautiful villages on earth etc are mostly one and the same. No effort is now needed to sell her our next trip.

Likewise, our clients are never challenged for somewhere wonderful to take a holiday when seeking to expand their knowledge of wine and food at the same time. Each year, we help many of them with that.

In the 20 intervening years, it has been my great good fortune to have worked with over 350 wine businesses across the planet on the full range of wine business challenges.

The majority come to us with a question about direct sales at some point.

[Our latest DtC benchmarking research](#) shows that, for Australian businesses producing 50,000 cases or less for example, 48% of revenue now comes from DtC sales. That number is 72% in the US. Almost 90% of those DtC sales ensue from a cellar door/tasting room visit.

The majority of our most successful clients view their brand home as their greatest asset.

I, therefore, thought it a good idea to put together a paper on optimising this crucial investment.

Your first question has to be – What is this building for? Selling wine. Right? Well yes, but there is much to think about before what seems like an obvious question answers itself.

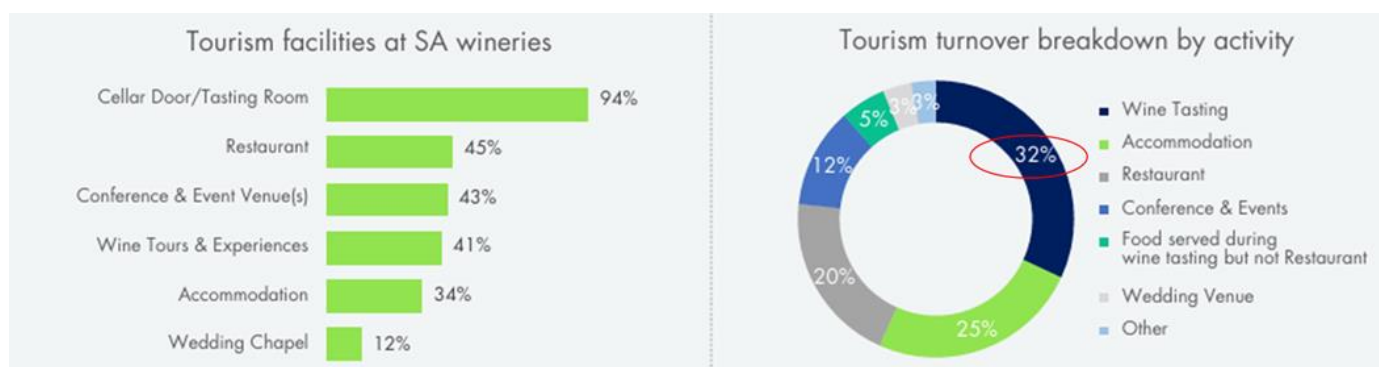
Whenever I run workshops, I spend a lot of time working to clear up misconceptions about what DtC actually is. Is it BtC or DtC, Direct to Consumer or Direct to Customer, Cellar Door sales or Tasting Room sales, are Digital Sales the same as e-commerce and is e-commerce the same as DtC? It’s easy to get confused. Especially when there are those with something to sell who see advantage in creating confusion.

WBS partnered with the Wine Show in South Africa and they undertook a number of ground breaking research studies including the biggest wine consumer study on earth. Over 25,000 wine lovers participated.

One of those studies looked at wine tourism in South Africa. This took on a very different hue to what our business and Silicon Valley Bank look at when we are benchmarking and talking about DtC.

What they did was not wrong. Further, you have to mirror other research around the world to create meaningful comparison. That is why we ask, mostly, the same questions that Silicon Valley Bank do. When I say ‘mostly’ there are some differences. SVB do not view a winery’s onsite restaurant sales as DtC, for example. We do. The South African research benchmarked against other wine tourism regions around the world using a European way of thinking about wine tourism that predates the modern DtC model.

Figure 1 – Percentage of SA Wineries having Tourist Facilities and Revenue Generated – Source, Vintelligence.



What is most interesting about that is that when you look at wine properties in South Africa, revenue from wine tasting forms less than a third of property income. Part of the reason for this is that the type and scale of property development that happens on the average South African ‘wine farm’ or in South America is rare in newer countries like Australia and New Zealand as getting a return on the land investment is so very much hard. When you’ve been there for centuries, depreciation on land value is an academic exercise.

Figure 2 – Ave. Visitors per Month per Winery. Selected Wine Regions

– Source WBS DtC Benchmarking to July 2024. US figures ex Silicon Valley Bank to end 2023.

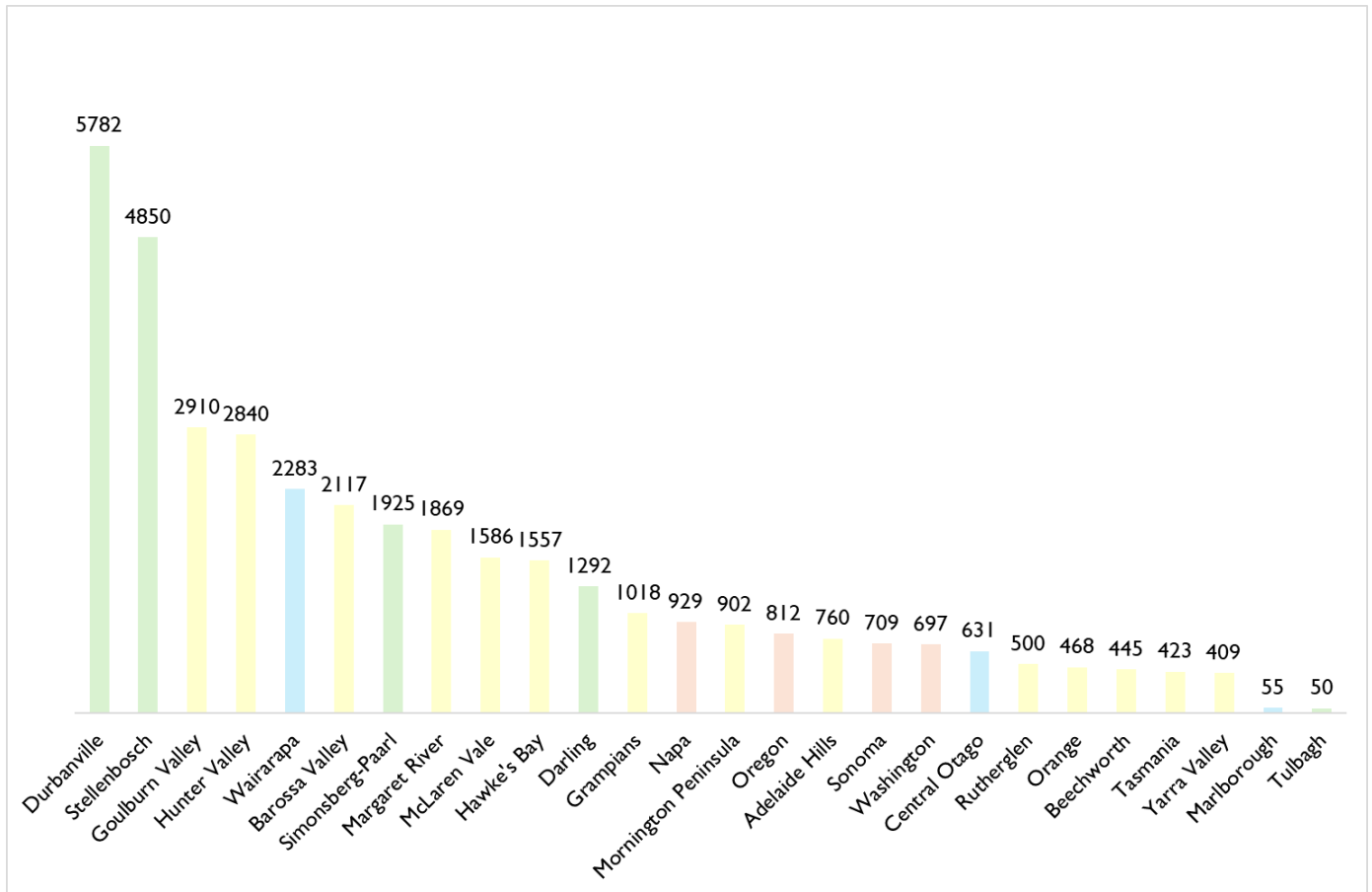
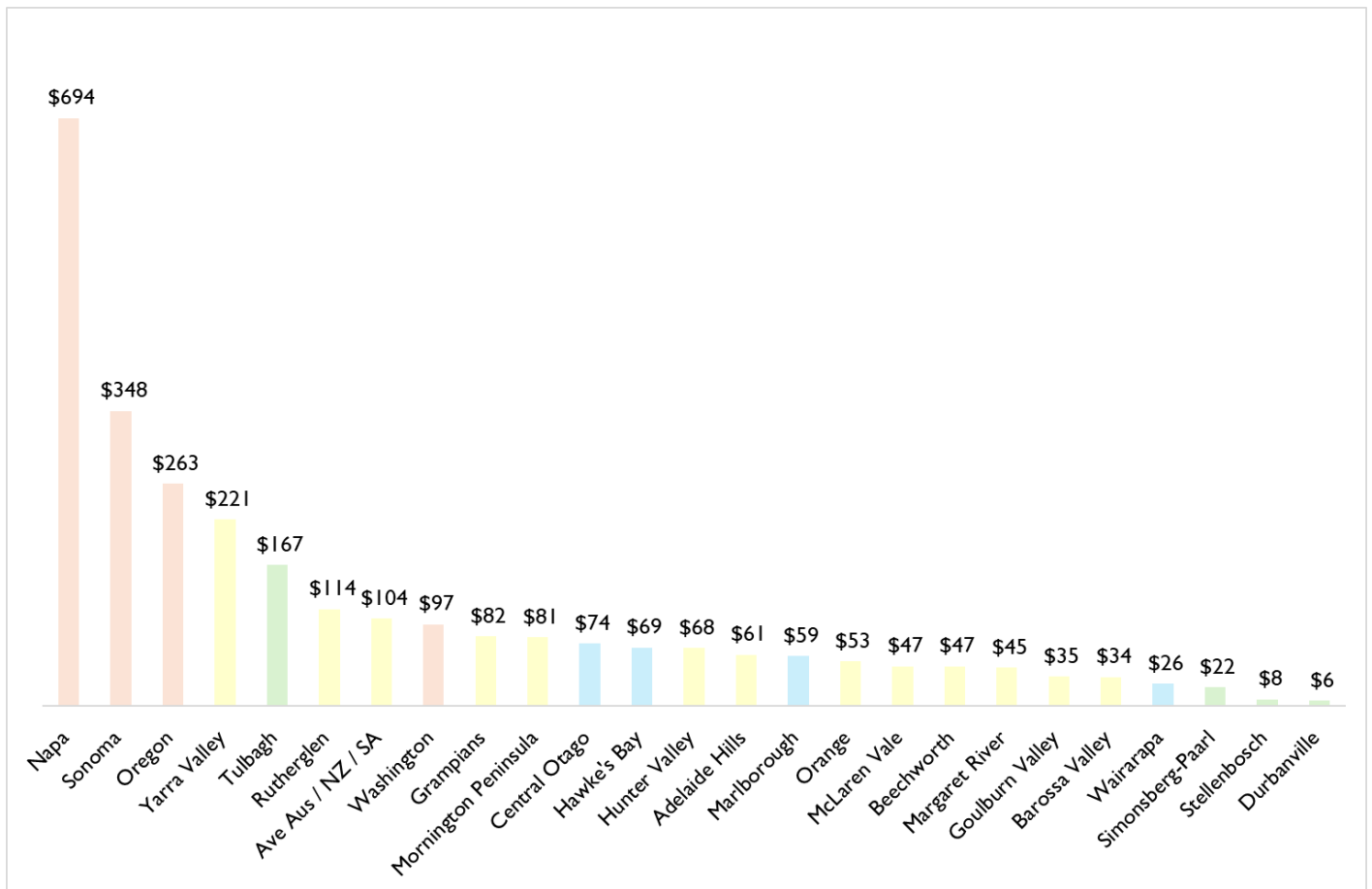


Figure 3 – Average Sale per Visitor. Selected Regions

– Source WBS DtC Benchmarking to July 2024. US figures ex Silicon Valley Bank to end 2023



One of the most important jobs of our DtC benchmarking is to highlight how wine regions around the world are similar in order to help overcome reservations about adopting the DtC model.

We often have Margaret River clients, for example say to us - “It’s not fair. We are so isolated. We are hours from a major city and that city (Perth) only has a million or so people”.

So, lets test that. It turns out that the average number of visitors per Margaret River winery per month is double that of the Napa Valley. Double.

Let’s now turn our mind back to the South African situation. It is in this regard that we see the biggest differences across all markets.

Wineries around Cape Town are the most visited on earth. Fairview near Paarl, for example, gets over 350,000 visitors per year. That equals around 12-15 buses and 100 plus cars in their car park at any moment. Just imagine that for a moment.

At the other end of the scale, the sales per visitor at those large-scale, traditional, wine estates are the lowest in the world by a long way. South Africa has the 2nd cheapest wine, in its domestic market, of the world’s 129 wine producing countries according to Wine Australia, so this is a key factor.

The other, of course, is all the other ‘stuff’ they have going on on the property and the view, by the local market at least, that a winery is somewhere to go to sit on the porch and sip wine rather than a place where you risk getting signed up to a commitment club to buy more wine than you know what to do with.

So, in deciding what you want your brand home to be, the first question is – what else to do we need? If we look at those other potential profit centres and rank them, they are, from our experience and knowledge of hundreds of small to medium wine businesses financials:

- I. **Accommodation.** Hard to get development approval for and harder to build given housing crisis affecting most mature economies post COVID, but definitely the most profitable by far. If you can make it a minimum 3-night stay, charge 5 Star hotel prices, do one clean up at the end and sell self-catering as a benefit, then that is a license to print money.

What we don’t see is clients, or regular accommodation providers for that matter, fully leveraging the Italian Agriturismo model whereby you grow and/or sell the best local produce that best shows off your wine as part of a fully integrated wine tourism experience. There’s the opportunity.

2. **Wine Tours and Experiences.** These warrant a whole Paper in themselves, but our research shows that wineries that offer them typically generate 2-3 times the revenue of those that don't.
3. **Weddings.** You have to be brave but if you can put up with the chaos and manage the disruption then these can be very profitable. One thing that our clients are finding is that the way to make a wedding more profitable is to offer a 'food and drink package'.

Typically, the person making that decision is not in touch with the depressing fact that people are not drinking any more. That is cynical and sad, in my view, but one way, at least, to counter the current crisis facing our industry.

4. **Conferences and Events.** Can be profitable, can help build your brand and you might as well use the space, you might think. As with weddings, however, you are now drifting off into the generic, having to compete with all venues offering the same services and diverting resources that could perhaps be better directed at selling your wine and building your brand.
5. **Restaurants.** Food and Wine is, once again, a topic deserving comprehensive, separate discussion but, as a general rule, restaurants are terrible businesses. Complicated, resource intensive and very challenging to run profitably.

We struggle with this, particularly in regions like Central Otago where there are established winery restaurants and wineries are, generally, late to the party in terms of fully adopting the DtC model.

Delivering a restaurant meal involves at least 3 times the people and 10 times the complexity of delivering high end professional wine service. And how much wine is that customer buying with lunch vs how much profit do you make from an equivalent cellar door / tasting room wine sale?

Perhaps the worst thing we see is when wineries have expanded merchandise offering that result in people buying things that are not your wine that have a 30% margin and activities that are not wine or brand related that reduce the chance of customers buying wine. Spain loves a wine tour that has no tasting, for example.

We count ourselves as fortunate to have such fantastic clients as Creation Wines (South Africa), Craggy Range (New Zealand), and Vasse Felix (Australia) who bring the whole wine, food and brand home idea together in a way that does the best possible job of building their respective brands. There are huge learnings from that that all can benefit from.

The right place to start is always with the customer. But who is the customer?

Most people start by thinking about who their consumer customer is. And that is a very good place to start. Whether your core consumer is more aspirational, are driven by wine and food, are actually interested in wine or see wine as a luxury product, will completely change what your building needs to be and do.

For example, I've spent years discussing the idea of a 'champagne palace' with clients. I'm not talking about what they do so well in California where people sit on the terrace of a 'faux chateau' and drink faux champagne. I'm talking about creating an entirely different theatre where people enjoy all the fun and frivolity of champagne 'Babylon (the movie) style', if not to the same excess. No one has done anything remotely like that, but I feel it coming as people look to break out from the strictures of Neo-prohibition.

It is not hard to then imagine where you could take the perfect place for those other consumer groups. Some of our clients are. Blue Pyrenees and Glenlofty Estates are about to open at No. 1 Collins St, the pre-eminent location in Melbourne, just opposite parliament house. Vinesmiths is a high-end lounge looking to deliver a level of wine service not seen in Australia before. It will be exciting to see what eventuates.

Urban cellar doors are another huge subject, but we have the US to thank, once again, for much experience in this area and Silicon Valley Bank, for comprehensively benchmarking this subject.

Trading emails with Silicon Valley Bank's Rob McMillan only this morning, he and I are in great agreement about the value of building a brand concentrically via having a base where your consumers are, running events for them and building out distribution in their local wine stores and restaurants.

But are consumers your prime target? Recently I visited Joseph Drouhin, another of the 'World's Best Vineyards' and their friends Louis Latour (who probably should be on that list) as well. Both offer a once in lifetime consumer experience, but their real focus is on trade and media.

Each had a team just for that. People who know how to talk to people, in other words. One McLaren Vale producer I spoke to said that they had 300 trade and media visits last year and were considering only opening their new tasting room to trade and media. This would be a major missed opportunity, in my view.

I, like many of you, have had that awful experience of turning up to wineries and not being able to taste. If anyone has gone to that trouble, then it has to happen. Jordan, another of the World's Best Vineyards, do what they call a 'salon tasting' meaning for those hapless people like me who rock up without an appointment, there is a barrel, there are two glasses and there is someone who in a flash, can sell you wine.

I was having lunch with someone who was a client, but these days is more of a great long-time friend. We were looking out from the terrace of the winery restaurant, and I said, “That’s what people want”.

He said, - “What’s that?” I replied, “The vines, the fresh air, the green expanse, the kangaroos down by the dam mowing it untroubled.” What they want, in the words of Hunter Valley tourism is to ‘breath’.

He slapped his thigh and said “I’m buying lunch”. “Why?” I asked. “I’ve just realised I’ve had my head up my (you know what) and that I’ve been focusing completely on the wrong thing. All our board discussions have been about how to get people in and how much they spend, when it should have been about how to give people an experience that they will love, want to repeat and tell all their friends about.”

That business has gone on to put fun (and fun is what fun is to your particular audience) at the heart of their business and has become extraordinarily successful in doing so.

Taking the customers’ view is key to site selection. So, what are some of the more practical pitfalls we see? Failing the empathy test (it’s not taking a walk in the customers shoes but being the customer) is very common but not seeing or hearing, due to site over-familiarity or wishful thinking are also big issues.

There is one wine region, for example, where I have worked with nearly all the producers. Each of them ask about the precise location of their cellar door. All seem not to be able to hear the 10,000 cars a day going up and down their highway in the same way that I don’t hear planes overhead at home anymore.

Then there is that critical question of “what are we looking at”. Here I have found two extremes. Clients have shown me what I regard as the best location on earth for a tasting room but then they can’t decide whether to put it at the top or the foot of the hill with those views.

Equally, if you want to pull out one tree in a Tuscan landscape, you will need to replace it with exactly that tree in that exact place so that a landscape painter will have the same outlook in 300 years’ time. I have had a client build a cellar door looking at a car cemetery on one side and an illegal housing development on the other when there were other options available. He was fixated on the building itself, not what it looked at.

Most important of all is how you set up your ‘sales theatre’. That, at the end of the day, is the single most important determinant of sales after the quality of people that you hire. If you would like some help with that or any other challenge building your wine business, then that, as always, is what we are here for.

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.

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