Wine Business Solutions

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Ready to Grow?

When I first started this business, it was in partnership with the youngest ever senior manager in Australia for one of the world's largest accounting firms. He was out of their business growth management practice. He imagined that we would be talking to fast growing wine businesses about cashflow and capital investment management strategies. He was brilliant at that.

That's not, really, how it worked out. Most of the businesses we've worked with over the last 14 years have actually gotten smaller, in terms of case production, on the road to becoming more profitable and, therefore, sustainable.

This follows global evolution. People are drinking less and better. This has involved a switch to more premium channels (the On-Premise and, for larger businesses, Travel Retail) as well as massive growth in higher margin / lower volume Direct to Customer business.

This, in turn, has involved absorbing the sales and marketing function into businesses that previously relied heavily upon distributors to do a lot of the heavy lifting in those areas. That has produced an abundance of work for us. It has also necessitated wine businesses losing second brands and other production that may have covered operating overhead but that sucked cash, whilst inhibiting premium brand image building.

Someone said to me the other day, and I tend to agree, that the greatest evil in our industry is winemakers sitting around and talking about 'how big it is'. Think of all the wonderful wine businesses that no longer exist as independent family owned enterprises where that was at the heart of their demise.

Why then would I be so provocative as to throw the growth question out there when, by now, it is a dirty word for most who really get this business?

I do this because wine businesses are growing. Both our Direct to Customer Benchmarking study covering Australia, NZ and South Africa and research ex Wine Australia confirms that, on average, small wineries grew revenue by 12% last year. (*This might be why I'm writing this newsletter now rather than in January. We haven't had time to draw breath…)*

What worries me most is when industry heads start talking about "the cycle" as if some magic force will periodically save businesses that are not tuned into the market. As the best of you understand, positive change never happens by accident. It's the result of a lot of hard work driven by market insight. Here's what we see happening in the major markets we work in as each manages disruptive change and opportunity.

We've just released our [Wine On-Premise Australia 2017] research. The one thing that stands out, above all else, is that Australian regions are recovering (imports are down to 34% of all listings compared to 37% last year) and cooler regions are driving this.

Figure One – Share of Total Listings of Wine Regions on Australian Wine Lists

Region	2017	2016	CHG
Margaret River	6.6%	5.8%	15%
Adelaide Hills	5.7%	4.9%	16%
Barossa Valley	5.7%	5.5%	3%
Marlborough	5.3%	5.0%	6%
McLaren Vale	4.4%	4.3%	3%
Champagne	4.3%	4.9%	-13%
Yarra Valley	4.0%	4.3%	-7%
Tasmania	3.7%	4.5%	-16%
Clare Valley	2.9%	2.9%	-1%
Veneto	2.9%	2.6%	10%
Great Southern	2.2%	1.7%	27%
Hunter Valley	1.7%	2.2%	-21%
Loire Valley	1.7%	1.4%	22%
Coonawarra	1.7%	2.1%	-19%
Mornington Peninsula	1.7%	2.2%	-24%
Eden Valley	1.6%	1.6%	-4%
King Valley	1.5%	1.2%	26%
Canberra Region	1.3%	0.9%	50%
Piedmont	1.3%	1.5%	-15%
Heathcote	1.2%	1.3%	-10%
Tuscany	1.1%	1.4%	-19%
Geelong	0.9%	0.4%	148%
Provence	0.9%	1.0%	-4%
Orange	0.8%	1.1%	-21%
Central Otago	0.8%	0.9%	-5%
Mendoza	0.8%	0.9%	-11%
Rhone Valley	0.7%	1.1%	-31%
Burgundy	0.7%	1.1%	-31%
Alsace	0.7%	0.6%	16%
Langhorne Creek	0.7%	0.5%	19%

The one major outlier is Margaret River (not cool and not hot either) whose increase in listings has been driven entirely within its home State of WA.

According to Australia's largest on-line booking platform – Dimmi - restaurant sales were down 8% in WA last year following the end of the mining boom. Whenever that happens, you can expect to see a strong swing back to 'local and less expensive'.

According to Dimmi, again, sales are up 6% in Sydney last year. Corporate dining was up 33% to the end of 2016 following a 41% increase the previous year. Australia's banks were amongst the world's least in need of shoring up post GFC and the financial services sector is now raking in super profits. Behind closed doors and ever so discreetly, there is a massive party going on. As you might expect, Sydney is the one market where imports are still increasing their share of listings. Almost half of all wines on NSW lists are imported.

Nationally, however, the trend is clear. It's about cool climate and it is about Riesling and Shiraz, the two lenses through which Australia can authentically tell a unique terroir driven story.

Figure Two – Share of Red Wine Listings by Leading Varietal

Style	2017	2016	CHG
Shiraz	23.2%	18.6%	25%
Pinot Noir	17.8%	16.7%	6%
Cab Sauv	11.6%	11.8%	-1%
Merlot & Blends	7.8%	7.5%	3%
Tempranillo & Blends	5.1%	4.9%	5%
Cab Merlot	4.1%	4.5%	-10%
Grenache & Blends	3.5%	4.8%	-26%
Cab Blend	3.1%	3.9%	-21%
Red Blend	2.9%	3.2%	-9%
Malbec & Blends	2.7%	1.7%	54%
Sangiovese & Blends	2.5%	5.2%	-52%
Shiraz Blend	1.5%	4.4%	-66%
Nebbiolo	1.5%	2.7%	-46%
Gamay	1.3%	1.3%	5%
Montepulciano	1.1%	1.1%	6%
Rhone Blend	1.1%	2.2%	-48%
Barbera	1.0%	0.9%	7%
Bordeaux Blend	0.9%	1.2%	-31%

Shiraz picked up its share of Red wine listings by 25% last year as the full potential of the varietal is starting to be realised. New clonal material has been imported from the Northern Rhone and the regions most suited are really hitting their straps. Shiraz listings ex The Great Southern are up 10%, the Adelaide Hills up 46% and Canberra District, Australia's fastest growing major wine region, up 123%. There is no such wine region as 'Central Victoria' but if there were, these appellations would be up 22% year on year as well.

It's a similar story with Riesling. Although the category is not growing, The Great Southern is up 19%, the Adelaide Hills up 59% and Canberra District up 66%.

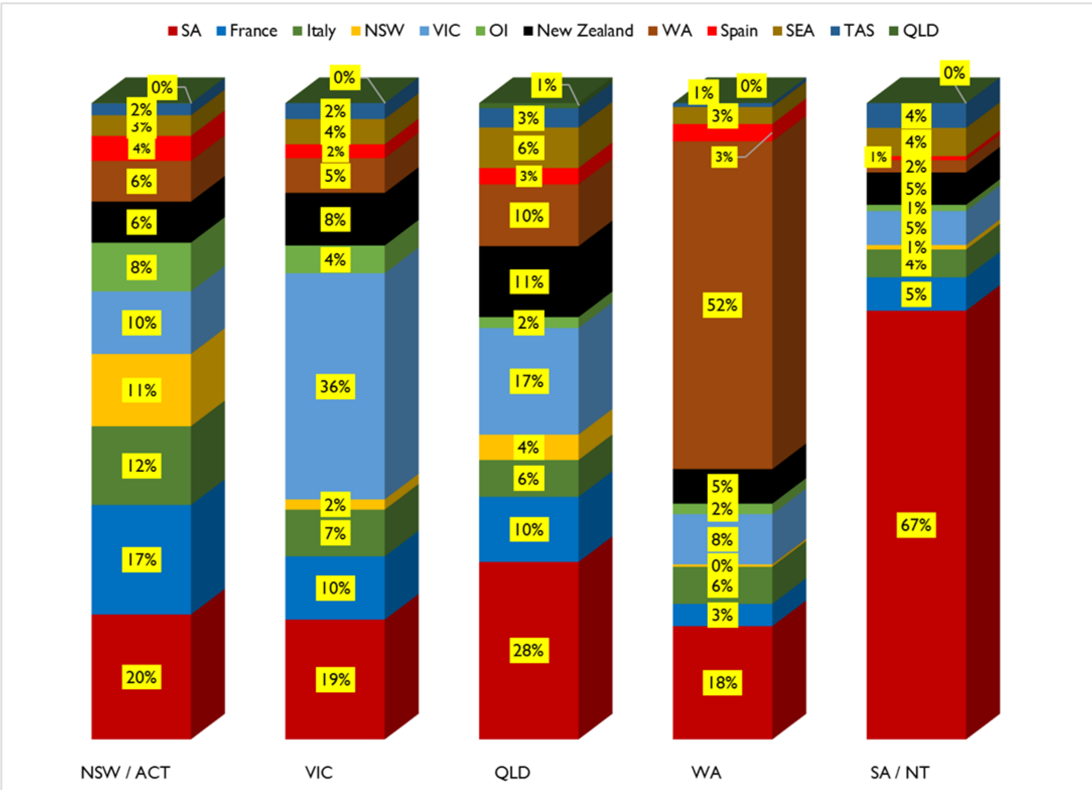
The fact that Malbec listings are still growing in Australia reflects just how powerful the Argentina / Malbec combo is as a wine idea. It also alludes to just how massive Australia / Shiraz could have been from the early 2000s onwards with better luck, better timing and, let's face it, better judgement where the US consumer was concerned.

Shiraz is, after all, an infinitely more capable grape variety in terms of achieving greatness than Malbec. Otherwise we'd all be going to Cahors for holidays instead of Lyon or Beaune. Indeed, when I ask young wine-mad people from around the world where they think the world's best and most exciting wines come from, invariably we end up (in our minds at least) in a vineyard in the Northern Rhone.

Australia can do these styles reliably with a depth and brightness that is unique. I believe the biggest single opportunity in wine globally is the gap between what Americans believe Shiraz to be (and let's face it, what the leading exporters are still sending them) and what Australian cool climate Shiraz is today.

There are those that cry out for these wines to be rebadged 'Syrah'. I don't believe that this is necessary but I do believe a full relaunch of the Australian Shiraz concept, globally, is very much worth investing in and is something that would reap huge reward. Rieslings from these regions could then ride quietly behind as the white wine window into Australian terroir.

Figure Three – Percentage Share of Wine Listings (for States and Countries) by State



Those of you who read our last newsletter would have noted the potentially disastrous loss of New Zealand wine's On-Premise listings in Australia, the UK and USA. I am pleased to be able to report that there has been a temporary reprieve, at the very least, in the Australian market.

In Australia, New Zealand behaves as if a State of Australia, in that the boom in 'Imported' wines was entirely about Europe and actually impacted negatively upon New Zealand as it did all Australian wine producing States.

Now, New Zealand is working its way out of that in the same way that the Adelaide Hills and Yarra Valley are – through innovative winemaking and connection with emerging consumers.

Figure Four – Share of New Zealand's Wine Listings by Region – Australian On-Premise

Region	2017	2016	CHG
Marlborough	67.3%	70.3%	-4%
Central Otago	13.4%	12.4%	8%
Hawkes Bay	5.9%	6.6%	-12%
Martinborough	4.6%	3.7%	23%
Waipara	3.2%	1.9%	65%
Nelson	2.2%	1.0%	124%
Gisborne	1.7%	1.8%	-7%
Canterbury	0.6%	0.5%	22%

We had been insisting to NZ Winegrowers that unless they effectively relaunched the New Zealand brand with the sort of large scale outdoor consumer events that the NSW industry and its regions utilise, that New Zealand risks losing relevance to the emerging consumer as the Marlborough Sauvignon Blanc craze comes to a head.

NZ Winegrowers do participate in Botte Shop Concepts' events like Rootstock, Game of Rhones and Pinot Palooza and say that they are continually evaluating opportunities for participation in other larger scale consumer events and the feasibility of developing their own for the future.

As you can see above, New Zealand's edgier producers, out of Waipara, Nelson and Canterbury etc., have been highly effective at leveraging the buzz around these events to build trade following. They are at the forefront of revitalising interest in the New Zealand wine category.

The only issue with Botte Shop Concepts' events is that they are primarily about brand building and not particularly good at selling wine on the day. The City Cellar Door, the Orange Region event and the Mudgee regional event are brilliant at doing that. Sales typically cover the cost of participation many times over.

What should you take if given the choice? Longer term brand building benefits or instant cash? (This is starting to sound like The Dunedin Study, the world's largest continuous health research project that demonstrated that those who seek instant gratification over greater long term reward have far worse life outcomes…) The answer always is go for the greater long term benefit. Mudgee, for example, has brilliant direct business but is nowhere in distribution.

Ultimately though, the question must be - ¿Porque no los dos? Why not run events that are awesome brand builders and sell wine? The Americans have no problem doing that and that really needs to be the goal of all direct marketing activity including events, club and cellar door sales. Let's sell wine, make friends and have fun. Now where have I heard that before?

What is it that the Kiwis are doing that has changed their fortunes? New Zealand's issue has been the very obvious fruit profiles most wines get. Initially, that underpinned the massive success of the New Zealand brand. As audiences around the world have become vastly more sophisticated post Masterchef, food has become more elegant and overblown fruit flavours are now seen as the enemy. Chefs want to shine.

In response, many lead edge producers have turned to natural wine making methods. This has the dual benefit of stripping down some of those flavours whilst adding more 'interesting', nuanced ones. New Zealand white wines can handle that far better than most Australian white wines can.

This is still, in my view, suboptimal. These fashionable techniques mask (although not completely) rather than enhance terroir. A far better approach is that used by the best Loire producers. You may have noticed that Loire listings in Australia are well up despite an overall drop in French listings.

It is not Sauvignon Blanc that is driving this either. It is Chenin Blanc and the myriad of other Loire Valley whites.

It has gotten to a stage in Australia, the UK and other similar On-Premise markets around the world where it is no longer about grape variety but an approach to texture that suits fine dining. This is where producers like James Millton (Gisborne) and Vanya Cullen (to use an Australian example) have nailed it. It's great that their biodynamic practices have taken them to a powerful place in today's market. It's the quality and mouthfeel of the wines that will sustain them in the long term and that everyone should pay attention to.

Unlike Australia and New Zealand, South Africa is at the top of a 'cycle', one that it must now manage extremely carefully. In the US, there is a belief that South Africa is 'hot' (pretty much just because it is their turn). That only comes around every 10-15 years or so, so you want to optimise that opportunity.

That then draws us into those critical questions around what does South Africa mean and what does each region stand for?

As Jancis Robinson rightly points out, the fine wine world has now become so sophisticated that any world class producers can find a place in just about every good wine store and restaurant on earth. Quality will win out.

If it were my business, however, I would far rather that a coherent message about what my country and its regions do better than anyone else, underpin my own quality initiatives. ¿Porque no los dos?

So, what is that and where is that up to? Definitely, SA's cool climate regions – Elgin, Hermanus etc. are well defined and well differentiated from each other.

Eben Sadie has been saying for 20 years or more that South Africa's best wines will be made from blends, rather than single varietals as those French varietals that underpinned the New World Wine boom of the 90s were never meant to be grown in hot places. Australia has been on a long and painful journey figuring that out. It took New Zealand stealing 40% of its white wine market to galvanise producers into action.

Eben never really did convince his compatriots to get on board with that idea but what he did do is, virtually singlehandedly, shift the centre of attention, where South African wine is concerned, from Stellenbosch to the Swartland. OK, he had a few friends in the guise of the Swartland Revolution but he was the leader, the original maverick, the dude who dared to be different.

Like the chaps in Waipara, 'Swartland' relies heavily on the whole natural winemaking concept that may not be sustainable on its own. So, what can the whole world be excited about on a sustainable basis? Well, vine aged Chenin for a start and Red Blends that also make the most of South Africa's old vine stock.

Where does that leave Stellenbosch, Franschhoek and Paarl etc.? A long way from agreed common promotional platforms, that is for sure but perhaps on the cusp of the biggest wine and food tourism boom the New World has ever seen. We'll all be able to learn something from that.

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