

Wine Business Solutions



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Building Business in China

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Before the DtC revolution, every wine business owner depended, almost entirely, upon selling wine through third parties. Most larger wine businesses still do. How well those relationships were managed, therefore, determined the profitability (viability even) of wine businesses until relatively recently.

Starting this business, I figured that seeing that I'd had excellent schooling in this area, after being managed by some of the best operators, globally, for nearly a decade and having spent up to 150 days a year selling wine in over 40 countries, that that sort of experience might have been seen as having some value.

Not once in 16 years, however, has anybody ever asked me “how do I manage distributors?”

“Peter – can you find me a distributor” I get all the time. I used to offer that prominently as a service but too often I found that the reason that these businesses did not have good distribution in the first place was they lacked the basic skills to prepare to present, pitch to and continue to manage a brand within a quality distributor. We can help with that.

Too often I would pair a winemaker with a great distributor only to watch them fail to even follow up. This would damage my credibility / relationship with these quality distributors, many of whom are also our best clients.

We do match clients with importers all the time. We're just a whole lot more careful about who we take on and about what we promise them. We only recommend suppliers when we genuinely believe that they will add value to the distributor's business.

Who are these best distributors and why are they so successful? Understanding that is the primary aim of [On-Premise research](#). Yes, brands can be built in the Off-Premise but this is the job of an ever smaller group of companies. The recent acquisition of 30 lesser brands from Constellation, by Gallo, highlights that.

Picking, pitching to and managing both commercial and personal relationships with distributors is the most important thing that all but smaller wine businesses do. Appropriately then, we've just updated our [Distributor Management Best Practice Guide](#) which deals with the commercial management part – i.e. how to manage the pricing, margin and brand investment discussion.

Whilst doing that, I thought it appropriate to focus this Paper on dealing with distribution partners more broadly and in the Chinese market particularly, as it is a very important subject for many of you right now.

One of the things that I am constantly hearing from people returning from China is that it's a 'weird' market. This implies that it is OK to expect and accept that it is beyond understanding. This is dangerous, in my view. A lot of people's futures depend on getting this right.

These are the same people that said of the US market – “Because Americans like [yellow tail] at one end of the wine spectrum and ‘Parker Wines’ at the other, then all Americans must be stupid and like equally stupid, fat, overblown, sweet-tasting wine”. That worked out well for Australia...

China is understandable and, moreover, worthy of everyone's understanding. Not just to know how to do business in China but how to build partnerships and personal relationships right across the Asia Pacific.

It is estimated that more than 80% of the Asia Pacific's Billionaires are of Chinese origin, mainly of the Cantonese, Hoochew, Hakka and Hokkien peoples - Han Chinese from just a handful of Provinces in Southern China whose culture it is to go abroad and win fortune for the family back home.

So, when suddenly given half the world as a notional territory, I found myself dealing with ethnically Chinese customers from Hong Kong to San Francisco to Kuala Lumpur to Auckland and back.

“Where to start?”, I thought. Surely everything is going to be totally different and I had better ready myself for that. I started reading everything I could get my hands on. Not just in relation to history, culture and geopolitics but writings on Eastern Philosophy as well.

I also read Bertrand Russell's “History of Western Philosophy”. (Don't do that unless you really feel the need to punish yourself). If I could be so contemptuous as to distil Western Philosophy down to a single idea – it would be the quest to ‘know the unknowable’.

This quest turned out to be futile, ultimately, as almost every single time an ancient western philosopher theorised about the unknowable, be they Plato, Socrates or Aristotle, it turned out to be wrong. It was (mostly accidental) discoveries along the way, that got us to where we are today.

Eastern Philosophy is concerned almost entirely with how to be a better person. This is something that is well worth remembering when you are looking for the door at 2am, when someone is trying to set up a Cognac drinking challenge in a sleazy bar under a casino. The people that you are with may appear morally deficient but those are not, typically, the values that were instilled in them from childhood.

But rather than set 'the meaning of life, the universe and everything' as the challenge, I thought instead to try picking up a boiled peanut with chopsticks, a good start. I ate in Chinese restaurants every day for three years. That way, I thought, at least my Chinese customers would respect that I had made an effort as I, otherwise, bumbled my way through those early interactions, as one inevitably does.

At that first meeting, I was shocked, firstly, by how fast everyone was running. Our Singaporean distributors were a gear up from everyone else I was dealing with. Secondly, I was surprised by how many commonalities there were in terms of how they managed agency business when compared to any other market in the world. Business is business and the whole pricing, margin, A & P discussion is the same everywhere.

It troubles me greatly, therefore, when I see foreigners in China mistaking the idiosyncratic behaviours of the small group of people that they feel they know for how all Chinese people behave. Peoples' inability to distinguish what is normal / global business practice from what is particular to Chinese culture and Chinese tradition is a major, unnecessary roadblock erected by many exporters. So, what is different and why?

Decision making in Chinese culture is group orientated and can take time. That is the single most frustrating thing for many outsiders. This frustration is sometimes what Chinese businesspeople count on as part of negotiation tactics. Usually, this stalling is simply a function of the time that it takes to get consensus and buy in from those with power. Be patient, I would advise, but know also when your time is being wasted.

Then, often as a result, things must be done in a rush. This also produces frustration on the supplier side as not everything can and should be rushed, especially where careful thought is needed to weigh up complex decisions that have long lasting, wide ranging ramifications. Being ready to go when it's time is the best plan.

Another thing that is hard to get used to is that some people don't care that you know that they are lying. You just have to get used to that. It's considered part of doing business and different to being 'trustworthy'.

Indonesia is no longer the world's third most corrupt country but doing business there is still very different to New Zealand, the world's least corrupt country. Corruption is something that Ji Jinping is trying to stamp out in China but, again, it is just something that you have to deal with. And best to be wise about it.

Know that it is not uncommon for distributors to take all of your combined A & P funds and give it to trade partners on the proviso that they give half of it back to the rep that made the sale. I've seen some of the world's biggest spirits companies get properly fleeced in this way. Mind you, there is also a well-known New Zealand wine executive doing time for doing the same thing in Australia. There are always people who believe 'the line drawn' is for someone else, if you get my meaning, no matter where you go.

Whilst everyone knows that there is always ‘a little oil needed to make the wheels go around’ as a one world weary salesman put it to me, know the difference between that and large-scale corruption.

Ignorance is no defence and under Australian and other government’s law, you can still be prosecuted for being complicit in corrupt dealings outside of your own country even if you didn’t participate directly.

Much has been made of the differences in paths to market in China. There exists the distribution chain via importers to wholesalers and on to individual outlets that is common to all markets. This part of the market has more similarities than differences when comparing to every other market.

Then there is what some term ‘non-traditional’ paths to market involving networks and ‘Guanxi’, that aspect of Chinese culture that neither ‘connections’ nor ‘relationships’ adequately defines. The existence of these networks, where wine is concerned, is only partly due to culture.

It is also about wine having been a new and extremely fast-growing business sector attracting newcomers to service a market that traditional suppliers had struggled to keep up with. That is changing now.

These informal networks also thrive due to a lack of trust in products, both from counterfeit and product integrity points of view. Hence the huge increase in Chinese Daigou shops doing cross-boarder, door-to-door shipping in the cities of the most favoured source countries around the world.

Hence also the technological gold rush, in Australia especially, to come up with tamper proof closures that provide end to end traceability and double as a consumer CRM enabler. Watch out for that as these technologies really will change the wine world. And they are imminent.

Another factor that has contributed to the ‘weirdness’ is certain governments making it a requirement to transact substantial business with local companies in order to gain a migratory visa. This has further distorted the market and people seem not to be putting two and two together there.

Some of these networks involve sustainable buying groups supplying large numbers of established outlets. Others, especially those involved in supplying State operated enterprises, disappeared due to the Chinese government’s crackdown on corporate gift-giving in 2012, otherwise known as its ‘Austerity Measures’.

For all of the reasons above, many hopeful exporters fail because there is simply no second order. Suppliers must therefore be very careful who they are dealing with from a professional point of view, perhaps more so than an ethical one. Most of these failed businesses initiatives started with good will and good intentions.

Torres China estimates that that formal / traditional route to market is now 65% and informal 'liver building' paths to market, 35%. They say that it was the other way around just 6-7 years ago before those 'Measures'.

What effect is all this noise, the fake products, the shoddy knock offs, the 'innovative' paths to market having?

Our research is unequivocal. China loves brands. The mass of other research into luxury products is very clear on that, as well.

If you visit any good supermarket in China (or even hypermarket) you will see what we see through [our research on wine lists](#) - The best representation of quality brands (and corresponding lack of second-rate labels) that you will find anywhere.

There is a very long way to go to flush out all of the rubbish in the broader market but even now, there is no better place, globally, to position a wine brand for growth, than the premium Chinese On-Premise and Retail market.

Some very good brands are missing their opportunity, therefore, by imagining that things are somehow so very different in China that an approach that you wouldn't use in the rest of the world will work here.

Instead of working with classic wine importers and building brands in the traditional way, they have decided to work with non-specialised trading houses hoping that they will leverage their networks instead.

Our research is clear. Those businesses are spectacularly unsuccessful at doing business with those outlets and in those channels that are key to the brand building in every other market on earth – good restaurants, hotels, casinos, quality wine retailers, department stores and duty free.





Almost all the best European brands have figured this out. That is why France, in particular, is winning in this market. Australasian and South African suppliers are generally split in terms of those who get it and those that do not.

It's major US brand owners, more than anyone else, who don't understand this. Gallo is the exception as they have been working in this region for over 40 years.

Others are missing out because they seem to think that the rules of gravity that apply everywhere else, don't apply here. They don't need a trade war, therefore, to be disadvantaged in this market.

As the wine market in China has grown so fast, traditional paths to market haven't been able to keep up. Online retail is now responsible for 30% of wine sales as partial consequence.

There are articles written every day about the likes of 1919 who provide instant sommelier services to restaurant customers and platforms that can deliver almost any wine to anywhere, very quickly.

How it works - Marketplaces	Business model	Deposit?	Terms?	In-house logistics?	Cross-border?
	Online Bazaar	NO	Commission on merchant stores	NO	NO
	Online Mall	YES	Commission on merchant stores	NO	YES
	Hypermarket	MAYBE	Commissions Direct buy Ex-Australia	YES	YES
	Imported goods direct sales	NO	Direct buy Consignment or Ex-Australia	NO	YES
	Flash Sales	NO	Short run buy or consignment	YES	YES
	B2B Wholesale Directory	NO	Listing fee	NO	NO

There is a whole book that could be written, that would have to be rewritten tomorrow more or less, on all the different platforms that trade wine as above, search engines unique to China and mega social apps like WeChat that do things that no single western application consolidates. That is all new, exciting and essential background when working the Chinese market.

What's not often discussed is that participation in on-line retail makes little sense for all but the biggest brands. Again, the same rules apply everywhere. It's in online retail where you have the most price transparency. It's there where the greatest number of eyeballs are but it is also where there is heavy concentration amongst the major online retail players like Alibaba. They understand the power they wield and are not afraid to charge for it.

And they understand how important it is to be price competitive in an environment where value adding is challenging. Add to that the requirement to have solid investment in a Chinese website and China's unique social platforms and working with these online retailers is anything but cheap.

As with the wine business everywhere, it is all about people and relationships. The best thing to be doing therefore, is to reach across the social divide and make as many friends as you can.

It's the idea that got Australian Prime Minister Paul Keating booted out of office. It's an idea whose time must finally come if we are to move forward.

There is this notion of 'otherness' where Chinese culture is concerned. That idea says that Chinese people aren't very interested in or trusting of people who are outside their family and circle of trusted associates.

What is not so often discussed is that it is relatively easy to break into those circles of trust and once in, strong and lasting emotional bonds can be forged which are rare in other cultures.

When you do that, that is the fastest way forward in terms of truly understanding people. Learning their language, better still.



If you are reading this and saying to yourself – “I get it – I read, I travel, I have many Chinese friends and business associates (that distinction always seems to be blurred in China) then perhaps you should check that your staff are equally on-board.

I was recently reviewing the web site of a wine business who had just spent millions of dollars on a new cellar door. It only had a 3.7 Google Review rating. Something had to be going terribly wrong for that to be happening.

When I dug down, sure enough, there was the answer in plain sight. The staff of this business were routinely being rude and dismissive to Asian visitors.

What they had not picked up on was that the reviews were all written in English. Good English. That meant either one of two things. Either these visitors were from Hong Kong, Singapore, Malaysia or somewhere else English is the ‘principal language’ if English is not spoken at home.

Or they were local people.

The staff of this business had somehow construed from signals from management that these customers weren’t worth pursuing or even treating in a dignifying way.

I saw the same thing first-hand in another region. One cellar door had three Chinese staff behind the bar and 30 Chinese customers buying wine. Their neighbours had one observably wealthy, independent Shanghainese couple in the car park who were dismissed as having no potential by the woman who served me next.

From a direct shipping point of view, every customer has potential. It’s just a matter of sorting out basic logistics.

We have just run our DtC Workshop round in Australia. It was a great success with 34 people unanimously giving the program great feedback. As part of that, we introduced Eric Matkovich who has a business that does direct fulfilment to 44 US States for overseas producers. This means orders placed at the winery can be shipped at local shipping prices. If he can do that within the massively complex US wine shipping environment, it is only a matter of time before someone works out how to do it in China. In the meantime, best to be doing the best job of selling via all means available. That opportunity may not last.

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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