

Wine Business Solutions



The Wine Paper 59

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'Clichéd' springs to mind. Certainly, there are 'C' words that none of us will ever want to hear again, once this is all done, along with oxymorons like 'new normal' and 'social distance' etc.

Let's focus on a couple of others instead – Customers and Connectedness.

There will be those of you, I am sure, who will be thinking that I would say that. Unlike social media / communications agencies, big data analytics companies and software vendors, we have no agenda at all in terms of any particular way to go to market. We can advise on and have tonnes of data on all of them. Nor do we have any challenge in working with any sort of wine business. I've worked in, run and even part owned every type of wine business from the public traded, to the huge global brands, to the one-man band.

But let's just take a reality check here. If consumers weren't buying wine online before, they sure as hell are now. So best we all get better at that and smartly.

We've all had to run fast to reinvent our businesses over the last month. It's been inspiring to see how quickly and cleverly the best of you have responded.

It's been a learning exercise, that's for sure. I hadn't, however, expected to be doing quite so much learning myself. That's been humbling.

In order to help, I hoped, I created a webinar entitled [“Managing a Wine Business in Crisis”](#). We had 170 plus people join us in each of Australia and New Zealand which, under normal circumstances would be considered one heck of a roll up. Throw in an audience that were supposed to attend, our South African workshop and others around the world, and there was the best part of 400 wine industry people watching.

You feel a great sense of responsibility when you do that. We've all sat through webinars where you wished someone would drive a fork through your eye rather than sit and listen to something you would be better off reading. At a time like this when every decision counts, you simply can't be wasting people's time.

A funny thing then happened. I got 75 overwhelmingly positive emails from Australia and not one from New Zealand. What on earth did I say? Was it my dodgy stuck-in-the-Tasman-somewhere accent? It was word for word, almost, the same presentation given to each audience. I had no idea. So, I phoned a trusted friend / client in NZ. He asked the right question - “Were they your people?” Subtly but critically they were not. They were NZ Winegrowers' audience not mine. I wasn't 'speaking directly'.

Paraphrasing Doug Polaner of Polaner Selections – “selling a bottle of wine is a deeply personal thing”.

There are those that see that as limiting but if you really understand the power of that statement then you get, what I believe is, the key advantage that the wine industry enjoys over most others.

I was a keynote speaker at a Bank of America Merrill Lynch analyst briefing not so long ago. Essentially, it was a day about providing assurance to analysts that TWE wasn't about to tank but, as I am sure that you would guess, I wasn't buying in.

Two of my best clients, Vanya Cullen and Geoffrey Grosset, were also asked to present as the face of 'small' Australian wine producers. It felt, at one point, like the whole room, including the CFO of the holding group for one of the largest wine companies, a representative of one of the big four accounting firms and the CEO of an online retailer, had ganged up on them.

They basically said that my clients were stupid for sitting at their winery and waiting for customers to come to them. They were implying that they should outsource customer relationship management to technology and to third parties as they would be so much better at that than my clients. They all clearly miss the point.

Those clients are hugely successful already, and they are so without having to chase an audience. They are the embodiment of what they believe. They are what the audience wants to believe in. They 'speak directly' to their customers just by consistently being who they are, being completely about quality and communicating that well. It's a virtuous circle with the winemaker / vigneron at the heart of the brand.

It works because of the deep connection the audience feel with the makers of a product that is demonstrably superior and their underlying values that got them there. It's real. It's palpable. It's 'authentic'.

Everywhere I turn, it seems, there are online retailers, news aggregators, fulfilment companies and even distributors essentially saying to wineries “look, if this direct to consumer thing is too hard for you, we'll do it for you. We have better tech than you and we have more resources.” Be super careful about that. I have seen the numbers and we also benchmark Direct for companies doing that themselves. Big difference.

This doesn't work and it never will. The whole point of 'direct' is that these are your customers. They are your relationships. They want to talk to you. They've never wanted you to talk to them more than they do right now. So, let's get talking.



THE HOLY GRAIL

1. Everyone in the business understands what DTC is and the value of it.
2. Complete alignment between your offer and your core customer's most desired experience.
3. Fully integrated Systems, Software and Processes
4. Integrated Communication Strategy
5. CRM & Marketing Automation used optimally
6. Everyone in the business knowing and performing their role in securing customer preference.
7. Doing the right thing for the right customer at the right time with maximum cost efficiency.

We always start our Direct to Customer workshops with this slide. The inspiration for this, I must credit to Andrew Stark, a long timer with Accolade. He brought me in to help them with their DtC strategy. He asked, what I believe to be, the most important question you can ask – “what does good look like?”.

In other words, if we are doing ‘it’ in the best way that it can be done, what would that entail? Reflecting on that, I thought that it might be worth looking at DtC in current context as the subject of this newsletter.

One of the positives from the NZ webinar was that feedback was provided to NZ Winegrowers (directly) that was not sugar coated. It emerged that, hard to believe as it may seem, there are still people out there who lead important wine businesses who simply don’t get DtC, confusing it with “Web Sales” and who think this is a small part of their opportunity.

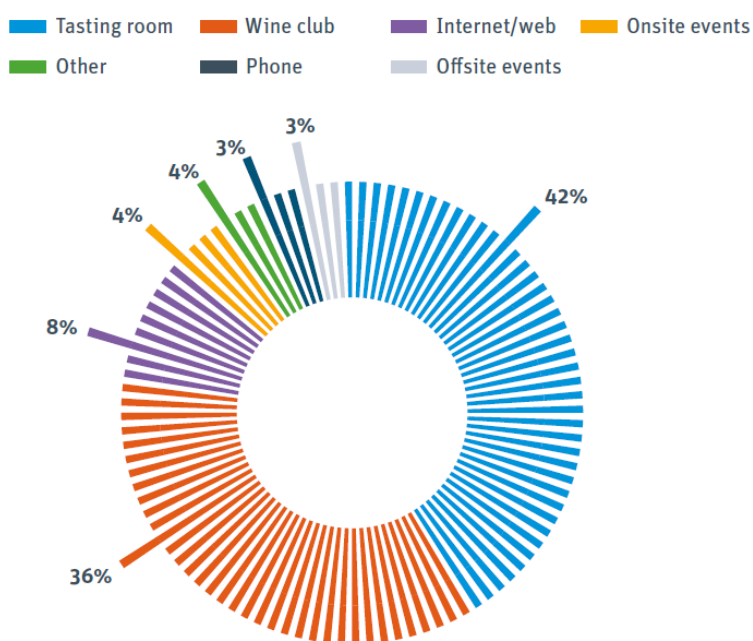
The average ‘Direct’ revenue for businesses producing less than 50,000 cases in the US is 61% of total (according to Silicon Valley Bank), in South African 44%, Australia 38% and New Zealand just 20% according to our 2019 annual benchmarking.

97% of US wineries produce less than 50,000 cases. In New Zealand, the ‘Large’ classification starts at more than 200,000 cases but the answer is the same - 97%. 85% of Australian wineries fit into the under 50,000 case category. If we graduate the NZ numbers, it looks like they would sit at about 85% as well.

Is there something about New Zealand that means that Direct can't work there? Every region that we look at globally is on the same pathway that California was on 5-6 years ago at worst. All are evolving to a logical end point. Some, like Napa it could be argued, have overshot to the point where they were starting to look greedy, but everyone should aspire to be where the likes of, say, Oregon were right before this all happened.

If you are one of those very large businesses doing most of the volume of wine sales then sure, business should have been good for you during the last month. Supermarket sales growth has never been stronger. If you are stuck somewhere in the middle, then now is the right time to think about really ramping up Direct efforts. The worst thing that you can be now, or at any time, is a small big business.

So, if it's not 'Web Sales, then what is it?



Source: DTC Sales Mix for the Average Winery

In the US, less than half of DtC revenue is the result of walk-in-carry-out cellar door sales and onsite events. In Australia and NZ, that number is more like 55%. The rest is sales to database. These are worth around half a \$ABillion in Australia according to our joint survey with Wine Australia and \$US3.2Billion in the US, again, according to Silicon Valley Bank.

And these sales normally come with a 65%-75% margin notwithstanding that there can be significant investment required to achieve them.

I would say “let's not get too hung up on this point” but until whole regions (many European regions start further back still) and countries along with their representative bodies, trade partners and press contacts get that the revolution has already happened, then ‘running forward fast together’ will be challenging.

I would have thought that everyone in the wine business would have, by now, seen that leading businesses everywhere are organising at home tasting experiences for their customers? But never assume, I guess. Just this morning I see a Canberra wine producer claiming to have invented the idea. Good ideas have many fathers. Failure is an orphan. Like so many producers, they clearly are not getting international news feeds...

Perhaps the actual first was a passenger in isolation on the Diamond Princess who claimed to have gotten Naked Wines to have sent him a bottle via drone. Turns out he made the whole thing up (which I only found out after the NZ webinar) but it does point to just how important wine is to people in this moment.

We've also seen industry leaders come out and talk about the collapse of large numbers of wine businesses. You have to ask yourself - why would that be if people are drinking more? Sure, people might be cutting down on spend on high end wine. But what else have people to do right now? It's all a question of cashflow, of course, and whether businesses can adjust quickly enough to selling through different channels.

The same people have been saying, without knowing, that the Direct space is overcrowded. It might look that way if you live in a major wine region with a small home market. It certainly does not from where I sit and I work in the wine business. These people also tend to be the ones saying that "you can't sell that wine at that price" when people were. Or that people don't understand or care about wine when clearly, they must. They wouldn't buy wine at those prices otherwise. All the wine in the world sells. Except that which does not. If people do not understand how that happens then it is not the wine's fault nor that of its makers.

I suspect that what these people miss is the way in which the highly fragmented nature of the wine business is actually its biggest advantage. Given the small volume of wine that the average business is looking to sell, they only need to target a relatively small number of people directly for it all to work.

How does offer alignment change dependent upon your business? In the US, those businesses that have an audience that are used to a process when they come to taste wine, can now simply do the same at home. One on one, if necessary. That's what their cellar door staff were doing previously after all. One producer is even sending Coravins out with the tasting pack, giving you an idea of where they sit, price wise.

Other businesses are taking a more down to earth approach sending out "seven days of the week" tasting packs for everyday enjoyment. Wineries are using sample test tubes, making the most of their back-vintage stock, pairing up with food providers, putting together wine, food and TV packs, creating pantry raider events, you name it. It's all about starting with your customer stuck at home. What would they like from you more than anything right now that fits with your brand?

Many of us have systems, processes and technology set up in an ad hoc way, adding bits and pieces on as we could afford them / found the time. It is not always easy, starting from that basis, to rapidly accelerate.

The best way to do that, I find, is to think about the customer journey. Every time a customer;

1. Subscribes to your newsletter or otherwise joins your database
 2. Buys wine
 3. Joins your Club
 4. Registers for an event
 5. Gets a wine shipment
 6. Contacts you via phone, email or social media
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- a. What's the process?
 - b. How do we streamline it?
 - c. How can we best use technology?
 - d. What features in our CRM / Wine Club Software and EPR systems enable us to capture information automatically so as to be seen by all, as and how they need to access it?
 - e. When must we 'speak directly'?
 - f. When is an automated response as good or better than a live one?
 - g. How do we use our communication tools to make it easier for everyone?

Think about the simple task that you are trying to achieve rather than allow yourself to become confounded by all that is supposed to be possible. Then think how you can make it as prompt and personal as possible.

There is a big focus in the US right now, for example, on Chat Bots. These are now cheap and numerous. Some might say – isn't the phone better? Well, it depends on the demographic somewhat. Overall, however, those wineries who can be immediately responsive are achieving far better results.

A lady once stood up at a conference I was at and said – 'Just give us the Holy Grail' meaning, of course, just give us the full integrated system that will 'talk' with everything. As an industry, we must never be 'talked' out of that idea. And we are getting closer. South Africans now have at least 3 options for wine club software where last year they had none other than trying to modify Shopify and Woo Comm.

Note - If you are still wondering about what to use, how and where and if you want unfettered advice then that is what we do.

I think we have to blame Paul Henry for this one. I once did a Google search for this term that returned 42 Million results and Wine Australia came up 'Number One', as the SEO 'gurus' always promise.

One word should always do the job, in terms of any idea, but here we have three. Anyway, what we are talking about here is a simple plan around who will say what, to whom, using what medium and how often?

The core task at hand here is to come up with a program of 'events', which I define as anytime anyone from your company sits (remotely in these times) with customers with a glass of wine you're sharing.

What does that look like in terms of your brand and all the ways in which it is unique? What can we do that is interesting, engaging, fun and on-brand? What does the roll out look like in terms of how you need to prepare your audience for what is coming? What are the critical things that you need to do to ensure that there are sales at the end of your process? This last one, in particular, is nuanced and we can advise on.

But how about our ongoing communication strategy - must that change? I use the example below in the webinar and I will site it again as I think that it is so important.



Years ago, Dru's web site used to have stuff streaming down the front page that looked like this. He once asked me "is that OK?" I said "Absolutely!" What he had done, essentially, was invent Facebook before it was a thing. He'd worked out that a stream of communications about the brand, their life, the place, his passion etc. ought to be engaging and that it could be a great way to build a brand directly with the audience.

So now that everyone is doing that, how do you continue? Firstly, I think that it is really important to maintain the 'Social Media Narrative'. That is, to keep relating what is at the heart of your story at a time when everyone else is being diverted off into complaining about / making light of / running a commentary on the pandemic.

Secondly, I think it is critical to keep innovating how, where and why you use communication tools. Dru could have easily written some boring blog piece about the current vintage, for example. That's what everyone is supposed to do right? Instead, he has condensed that into a compelling Facebook post. (Which can latter be turned into the boring blog piece, not to be read but to help with search rankings...) Critically though, look at how he is 'speaking directly' to his audience. By staring unflinchingly down the barrel of the camera, you know that he believes what he's saying.

Contrast that with an email that I got from a well-known Barossa wine brand yesterday. It had a huge amount of work put into the concept (more than was needed, I think). They were going to have not one but three guest presenters taste 6 wines with the audience in 3 tastings over a 3 month period.

I emailed the 'club captain' and said – "yes, interesting but what do I do to order the wines". He responded fairly quickly, as it had just been sent out "oh, you need to click the graphic with the bottles in it". I then responded "but that only takes you through to the shop". He again responded, "You then need to log on as a member to see the offer" (but I had been sent the email?). I then responded, "Don't you think there should just be link to the thing you are selling" He responded, "Thank you Peter." The End.

Just as we encourage people to check through their web site at least once a month to make sure there are no 404 errors etc. now might be a good time for business owners to check to see that there are no 'broken links' where your staff are concerned. This is simple but critical stuff and I am seeing so much of it done so badly. It does not require a great amount of time or money to fix. It does make the difference.

Direct, in the end, is a simple numbers game. If you have great customer acquisition, engagement and retention strategies in place and the means to measure them, then you will get results as sure as night follows day. If not, you might continue to see 'web sales' as a small part of your business. Ultimately, it's about Customer, Connectedness and Speaking Direct. You know how to do 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.

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