Wine Business Solutions

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Breaking the Mould

We all like to think that we get better as we go. Certainly, the aim ought to be that all our lived experience builds on itself. That wisdom precipitates. It doesn't always. Sometimes there is that taxi driver who, caught in their own continuous feedback loop, is a worse driver than when he started. We've all experienced that.

I do believe, however, that a recently completed assignment was my best work. It had to be. The client was a good friend of my best friend. We had known each other for longer than I'd like to admit to. It was a huge step for him to ask for help, to set aside ego, to concede that another point of view might be useful. Equally, that heaped pressure back on me to ensure that I really put my back into it. And I could. The brief was broad. The fee was good and fair. I could therefore allocate as much time to the task as was needed.

We covered DtC, digital, price optimisation, improving profitability, distribution, export, portfolio composition for their distribution company, salesforce management, product innovation and whole of business strategy including how that related to family succession. Just as a start. A lot of work but a huge amount of fun. I was pleased with what was presented and so, clearly, were the clients.

It's fascinating to me how often it is that the whole nub of the issue for any business comes down to a few words that may or may not at first seem directly related to the big themes like those covered above. Language is a massively powerful thing. All of us need to be careful what we say as throw away lines. Where the people who have had the greatest influence in my life are concerned, often it is just one or two comments made, sometimes completely out of context, that crystalises all that I ever thought about them.

A comment that stuck with me in a conversation with one client, for example, is that 'it isn't broken'. I get that it is important for everyone to tell themselves that from time to time and that the worst thing you can do in a crisis is to embark on desperate 'entrepreneurial' moves that potentially 'throw the baby out with the bath water'. From my time in teaching turnaround management, higher levels of staff engagement and efficiency tactics are proven by research to drive better results when a business is in a life or death situation.

"If it ain't broke, don't fix it" was, however, the catchcry of the patriarch of what became Australia's biggest family wine business failure. Arch-conservatism really is that which family businesses must work hardest to drive out. All things are 'breaking' and in two to three years' time, typically, will be 'broken'. Putting constant innovation and improvement at the heart of the way any business operates is central to survival. The real innovators don't just break the mould, however, they smash it to pieces. As I'm about to lead a workshop on wine business entrepreneurship and innovation for a Canadian university, I thought that it might be good idea to look at what genuine entrepreneurship looks like across the wine business value chain.

We've all heard it. Great wine starts in the vineyard. It breaks my heart when anyone in the wine value chain fails to capture the value they create. The family farm that drove the rise of the 'colonies' in the post-industrial age hasn't really been sustainable since the 1980s. Agribusiness globally has an ROI of just 3-4%.

I've witnessed corporate dairying replace almost every family farm on the East Coast of New Zealand's South Island polluting and raping rivers dry as they went. A mass of issues from global warming to post Covid labour shortages, economic sanctions and family succession threatens grape farmers everywhere. It's not a long leap to imagine how grape growers could go the way of kiwi sheep farmers if things don't change.

Value innovation is at the heart of what we teach. But how do growers capture value?

When I first saw Matt Swinney's vineyard in the Frankland River region in the remote South West corner of Western Australia (pictured above), my first thought was – wow, that's the best vineyard I've ever seen. A great vineyard, like great art or design, doesn't require great understanding. I'm not a viticulturalist. Regardless of the French and Americans being at polar opposites, generally speaking, when it comes to the idea of an aesthetic being innate, sometimes when you see greatness, it just is.

It wasn't any surprise, then, when the Swinney vineyard won 'Vineyard of the Year' in the inaugural Young Gun of Wine 'Vineyard of the Year Awards'.

But this is not a story about how fastidiously the vineyards are managed, the amazing flavour profile shift when changing from trellised to bush vines or even the absolute quality of the fruit and site. You can read about that in your local version of Grape Grower and Winemaker.

No, this is a story about value capture. Some children leave the farm to gain life experience and business skills with the best hope being that they can add value to the existing model. Matt Swinney returned to the farm to blow the business model up. He knew that there was no point in being a grower in the classic sense.

When he took over, they had one key ace up their sleeve in that the vineyard had supplied fruit to the Jack Mann wines (Accolades' pinnacle drop ex Western Australia). At the time, they had just two customers. Quickly, Matt expanded his book of buyers to over 30 leveraging the Jack Mann status and delivering that quality. His average grape price more than trebled. What he had done, without necessarily being fully aware of it (great ideas are generally had by many people simultaneously) was to copy the Andy Beckstoffer model.

Beckstoffer, however, went one step further. Beyond simply developing such a strong brand with buyers that his grapes could be sold at a premium, the 'Beckstoffer Vineyard' brand on a label has become more powerful than some of the producer brands they supply. If you track through the Wine Spectator article in this link, you will see the great long list of highest pointed wines that carry the Beckstoffer name.

The most important thing to note here is that this is the opposite of what we used to do in Marlborough in putting a grower's name on the label. That was more about massaging their egos in order to soften them up for the next negotiating round. Beckstoffer recounts how, when he was first invited to sit in a Napa producers' meeting, that growers were expected to sit around the outside of the table. He sat at the table.

Another thing that he did was link the price of his grapes to the price each wine is sold for. It was easy to work out, when in Marlborough, that if you knocked two zeros of the price of grapes per tonne in order to work out the selling price per bottle, then the model worked for everyone. In other words - $2000 per tonnes means a $20 bottle of wine. Adding a grower's name to your wine, however, usually meant having a conversation about why they should get $2200 a tonne backed up by an ignorance of the global wine market so great that it could fill up the entire Wairau Valley. They just wanted more. The genius of Beckstoffers approach is that those guys making $400 bottles get to pay $US40,000 per tonne. Everybody knows what the deal is. Everybody sees the fairness and transparency of it. Everybody pays. Beckstoffer used that money to buy 3600 acres of vineyard. That's how you get to be a billionaire in the wine business.

Of course, Matt Swinney then needed to capture more of the value chain. Many of you might be thinking - why didn't he quit while he was ahead? David Dearie (CEO Ste Michelle Wine Estates and ex CEO TWE) once said to me that "the best place to cut your losses is at the grape vine" meaning that, for those who don't know what they're doing, the more value they attempt to add, the bigger the losses down the track.

When value sits at the front, as it does with Napa, then using the Beckstoffer model is perfect. When the value is not quite there yet, as in the case of the Great Southern Region despite all its enormous potential, you may need to actively participate in creating it. That's the point at which I was asked to be involved.

And what a privilege. So often I get called in after the car crash. Matt wanted the best advice at the outset, on all aspects and also brought in Peter Dawson, former head of winemaking at what is now Accolade.

On one level, I thought this a great move as there was continuity with the 'Jack Mann philosophy' atop the fact that Matt had requisitioned Robb Mann, Jack's grandson, to be winemaker. On another, the sort of wines that Accolade / Hardys were making in the 1990's were, in a lot of ways, the embodiment of what I saw as 'the problem'. Big, hard, unforgiving things that had been the subject of a lot of big company doctoring. Would Peter D. have any respect for, let alone the desire and ability to create what we needed?

We talked about 'it' endlessly in concept. We ate, drank, and slept on it. We tasted a vast amount of wine. What swung it, in terms of my faith in the process giving us all what we wanted, was a blindingly good bottle of Vacqueyras Peter had pried from his cellar. It had that ethereal quality that posses great Burgundy but is based, of course on Grenache, a variety that Matt is seeking to redefine in the Australian context.

I could see then that there was the alignment of the vision, the fruit, the winemaking, the thought process and the confidence to create something great. Frankland River already made world class cool climate Riesling, Syrah and Cabernet. Now we had something that would truly capture wine writers' attention.

And it did. Huon Hooke rated Swinney as the 6th best producer in Australia from a standing start. In order to go next level Matt imported Syrah cuttings from Craggy Range understanding that most of the vine stock in WA was for the production of commercial grade wine, that that was the real reason for poor WA Shiraz.

Why was I so confident, you might now be even thinking arrogant, about taking the direction we agreed? Every single one of the key trends we were looking to ride are now born out in our latest On-Premise research. The rise of Riesling, cool climate Syrah and Grenache had signalled their coming a long way out.

The reason Crédit Agricole effectively owns so many wine businesses in France, that PWC controls Villa Maria and that Woolworths Australia is buying up wineries is that these producers allowed their route to market partners to entirely extract brand value whilst they failed to control the front end of their business.

On top of what larger wine businesses have had to deal with during the last 12 months:

- Rolled up terms (meaning a supermarket chain simply deciding to stop pretending and consolidate all their bogus money rorting into a single off-invoice deduction at point of warehouse withdrawal)
- Shelf space / range rationalisations and
- Profit margin guarantee requirements etc

are squeezing the life out of Medium sized businesses. I wrote about this before COVID. It's worse now.

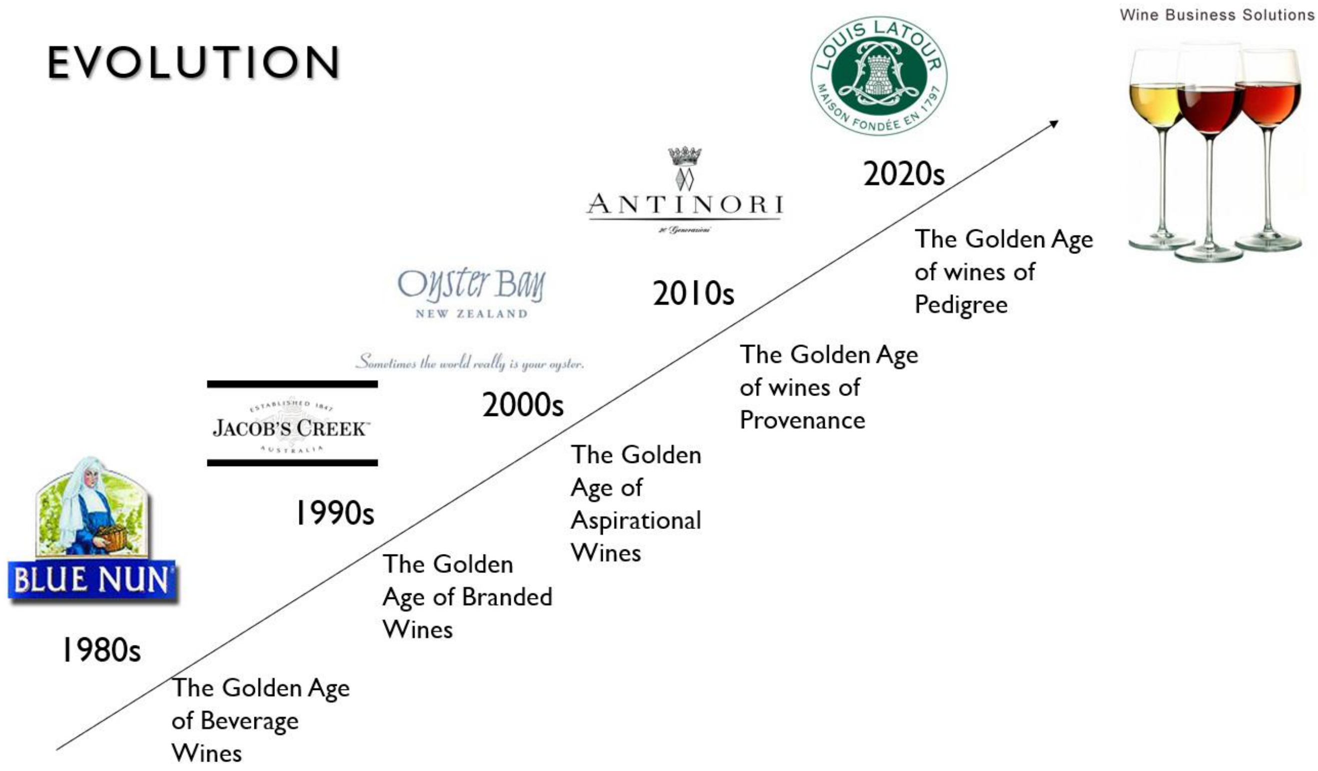
The answers are simple. With the consumer seeking to put themselves at the centre of supply chain, it's just a question of how fast these medium sized businesses can reengineer their business models and routes to market. Seeing is believing, of course, and one of the real issues faced is that there just aren't a lot of easily identified role models for medium to large Australian, NZ and South African wine businesses.

The boom in 'New World Wine' meant an intense early focus on the US. Australia, in particular, met with huge success. The beverage grade wine that Gallo and co were pumping out, without having to care too much about quality, was no match for the flashy new branded Australian and, more latterly Chilean, product.

What certain Australian producers really did better than anyone else was speak to the lowest common denominator. Just as Rupert Murdoch saw something in the UK public that the tabloid press hadn't and likewise his US television empire, Australians understood things about the US consumer that local producers weren't seeing (or maybe didn't want to see). [yellow tail] and Parker wines resulted. It didn't take Americans long to catch on. You can still feel the blow back from that perceived insult today.

With US sales drying up (except, ironically, for [yellow tail] and one or two of those 'Parker brands') and exchange rates making it even harder, Australian producers largely turned eyes away from the US.

But the US hasn't stood still. Competition only intensified. The three-tier system put at least as much pressure on all but the largest producers as supermarkets are elsewhere. All US companies had to take the premiumisation thing seriously and all did. TWE, Pernod, AVL etc chose what looked like easier options and are paying for that now. That Jackson Family Wine Estates could quietly waltz into McLaren Vale and effectively take over the quality leadership position should give all Australian producers pause for thought.



So, what is happening at the leading edge now and how can a medium sized business use that information to assist transformation? As we've said before, the rise of Italian wine was predicable. What we didn't anticipate was just how dramatically and quickly that would happen.

The same thing that we observed globally in the On-Premise through our research and that Hawesko saw in Online Retail in Europe happened in the Fine Wine sector. According to Liv-Ex, sales of Italian fine wines are 2.5 times what they were 5 years ago.

The drivers are slightly different, as they always are, in the Fine Wine sector (defined as €30 + in Areni Global's brilliant new report into the Fine Wine Consumer in 2021), than they are for the engaged wine drinker (€15-30/$25-45). Rather than looking for gold in the lesser-known regions of Italy as the global On-Trade were, Italy, for Fine Wine drinkers, is about Super Tuscans being a reliable everyday drink for buyers of top Bordeaux. Producers in Margaret River, Coonawarra and Stellenbosch really ought to take note.

What is driving engaged wine consumers interest now? We didn't quite know what to call it, originally naming it the coming of the 'golden age of wine of heritage'. Heritage of itself is valued in markets like China and Hong Kong. Being consistently best in terms of quality or having 'pedigree' wins, however, unsurprisingly. That is why French wines (led by the Rhone but Burgundy and Bordeaux are on fire as well) are killing it in all markets that we measure including Australia. But how do you compete with 'best'?

The French are not unbeatable. There is a whole range of issues from dodgy closures and inconsistent quality to lady bugs (yes, those things that 'fly away home') rendering a $500 bottle Burgundy at a tasting I was at last night undrinkable. That and an unhealthy dose of 'bret.' made it the worst bottle of wine I have seen this year at any price point. Now there is frost for key French regions to have to deal with as well.

It happened in hospitality with Spain and then Scandinavia taking over leadership of the global restaurant scene. Right now, however, taking France head on in the top arena of wine would seem beyond brave.

What must a medium to large sized business achieve through its premiumisation effort in any case? Along with the race to digital that has been keeping us busy where every type of wine business in concerned, it's essentially about making wines that will work in the On-Trade and premium retail that speak to engaged consumers. This is, of course, central to moving as much production out of major retail as possible which, for all but the largest players, is the key to survival. Even Constellation have already made that move.

Jackson Family Wine Estates went the classic route with their Yangarra brand. They bought the best vineyards, spent the money on the winery, employed creative winemakers and passionate salespeople. By 2019 they were already the most listed McLaren Vale wine brand in the Australian and US On-Premise.

But there is more to their US success than this fairly obvious recipe. This week I was lucky enough to be invited to the Young and Rashleigh trade tasting, one of the first to be able to host 200 people post COVID. Their 'Cuttings' division had gone out on a limb, I thought, in importing a range of US wines including a number from JFWE. For wines to turn up in the Australian market that are highly competitive in terms of both price and quality really should give Australian producers cause to question what can be learnt.

The thing about the JFWE wines is that, although regionally expressive, all shared a common approach to winemaking that is completely different to the way Australian producers typically think. Rather than the flavours weighing down on the palette seemingly pinned down by (often added) tannin and acid, the flavours of these wines were forward, up and elegant. It was like they had used the same approach that made KJ Chardonnay the most profitable brand in the US in its day (using overt oak and residual sugar) and instead asked the question – how can we create a flavour profile for sophisticated drinkers that focuses on elegance, works with food, is consistent yet different and is even better than the average smaller producer's wine?

That really was mind opening and proof that a methodical approach can get you to 'better' no matter what the target. In the US, the large companies and their premium brands are huge in the On-Premise.

You might now be thinking that the themes for this paper seem a bit disparate – where's the 'golden thread'? A winemaker (ripe old age late 30s, I'm guessing) asked me the other day – "how do I remain relevant?" I said – "keep asking questions." A high-profile wine critic then bit back with – "is that one of your 'things'?" I thought to myself - "no it's not one of my 'things', it's the simple truth".

Our young winemaker's fears emanated from what I was seeing in our Australian On-Premise research this year. Every 'Young Gun of Wine' now has a younger gun distributor. Seen in an 18000-line spreadsheet, it presents as a terrifying tsunami of product proliferation. The cruel irony is that, just as is the case in every market that we research, the strong brands and the strong brand-oriented distributors are just getting stronger. The biggest obstacle for young winemakers is not that they don't have 'awesome' wine, mind expanding packaging and out of the park Insta. skills, it's that they can't add up. You wouldn't believe how many new 'businesses' I see where the projected revenue doesn't equal a salary let alone a bottom line.

Matt Swinney is not a Hipster. He doesn't have a cap, a beard, a sleeve length tattoo and turn up to Zoom meetings 10 minutes late with wet hair after having had a surf with a MasterChef burger still in his mouth. Every generation wants to disrupt the last. I get it. My god we did. The Sex Pistols and the Clash were not Bill Haley and the Comets. We wanted to change the world too but had real bloody rage about it. If the big question right now is the long-term sustainability of the wine industry, then the single most important thing for the next generation of winemakers to understand is - what's required to be sustainable?

Fine wine is fine. Demand has been strong right though COVID. The top 20% globally have been the least financially impacted. The top 1% are, very quietly, partying their backsides off. And it is young buyers that are driving growth. Engaged wine drinkers are well catered to as well. There has never been a more diverse and amazing total wine offer. Smaller producers were in a better position to 'pivot to digital' (i.e. sell wine to their friends) than many industry leaders, commentators and agency types gave them credit for.

Where the wine industry is really struggling globally is with the Aspirational consumer, the emergent drinker who is more health conscious, socially aware and who has more choice in terms of other things to drink than ever before. Where it all goes wrong for a lot of young winemakers is in trying too hard when pitching to that audience. They haven't necessarily got the money. It's a job better suited to bigger businesses and that is where the disconnect is. But as discussed in this Paper, there are those who are figuring it out. The smartest path, I believe, is to take heart from the fact that wine has been around since the dawn of civilisation, to question everything right up and down the value chain, to create a 'better' product in every way, sense, shape of the word and look to engage emergent consumers deeply with that journey.

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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