

Wine Business Solutions



The Wine Paper 64

July 2021



Winning the Wine War

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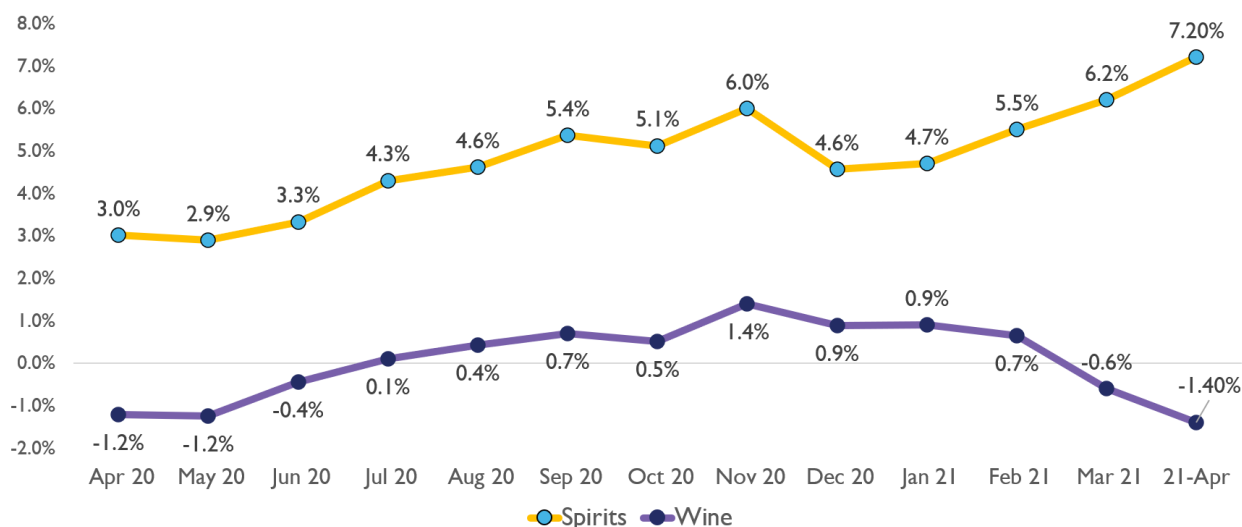
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There is a war going on. And I'm not talking about COVID. No, this war was raging long before that. I'm talking about the battle for the hearts and mind of consumers where alcoholic drinks are concerned.

Figure One – US Depletions from Wholesalers – Source, Silicon Valley Bank

Spirits vs. Wine – Spirits continue to gain share

Depletions turned back negative vs 2020



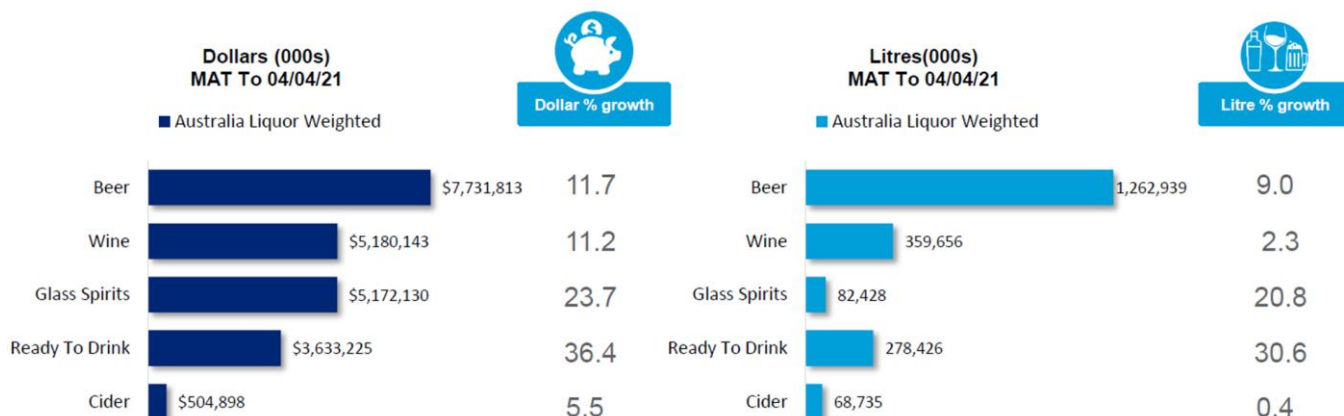
svb Source: SipSource

12 Month Rolling % Change vs. LY

As Silicon Valley Bank's Rob McMillan points out, in the US, depletions don't tell the whole story. DtC (equivalent to around 10% of volume that is increasing at around 10% per annum) must also be added in.

That takes us back to roughly zero. That's all. Spirits are fair boultng away. What about other markets?

Figure Two – Australian Off-Premise Sales – Source IRI



Australia has just been through the biggest 'booze boom', off-premise, that has ever been seen and yet wine only saw a 2% volume increase versus nearly a third added to the value of sales of spirits and RTDs. Yes, there are wine categories that are doing well (Red up 11% by value, Sparkling by 12% and Rose 25%) but overall, spirits are winning comfortably in terms of the competition for consumer spend on alcohol.

Gin has been attracting most of the attention, with a massive 44% volume growth MAT to early 2021 in Australia in retail, for example. Alongside and underneath that, however, a whole raft of mainstream and niche/craft spirit categories can report similar success. 'Craft' may be leading interest, but the major spirits houses are driving volume and global reach.

The industry has been quick to blame healthier lifestyles for the demise of wine sales growth but if that were true, would hard liquor be the answer? There is clearly more going on here.

Go out to your local 'hipster bar', when you can, and you'll be sure to be offered a cocktail. Some might say that that is better than being offered water which is the norm in Australia. In Europe, you are offered an 'aperitif'. By not doing that, restaurants miss their biggest upselling opportunity, a huge loss for wine businesses selling to the On-Premise. The 'after dinner drinks list' gets worked fairly well in Australia but staff in mid-tier US businesses generally don't know what that is when asked for. More missed opportunity.

Then you get handed the degustation menu, on that special evening. Watch the way that craft beer, spirits and even vinegar are being matched up with food. These are all subtle encroachments, but it is amazing how little it takes to disrupt the habits of a lifetime especially for consumers who delight in being challenged.

So, what do we, as an industry, do about it? Do we just wave the white flag, give up and join them? I guess that depends on your perspective in terms of 'us' versus 'them'. Spirits have been an offshoot of wine production forever. Others may feel that they are in the 'entertainment' business and that if spirits can credibly form part of their tasting room offer – then why not? The answer to 'why not', in the general case, is what the major brewers and distiller do to smaller competition. If the answer to that question, in turn, is 'buy you out' then that might suit some. The other alternative has me sitting uncomfortably...

From a personal perspective, the trigger was when some of our closest friends (I use that term loosely) bought me a gin glass and bottle set for a significant birthday. That was my line in the sand. This has to stop.

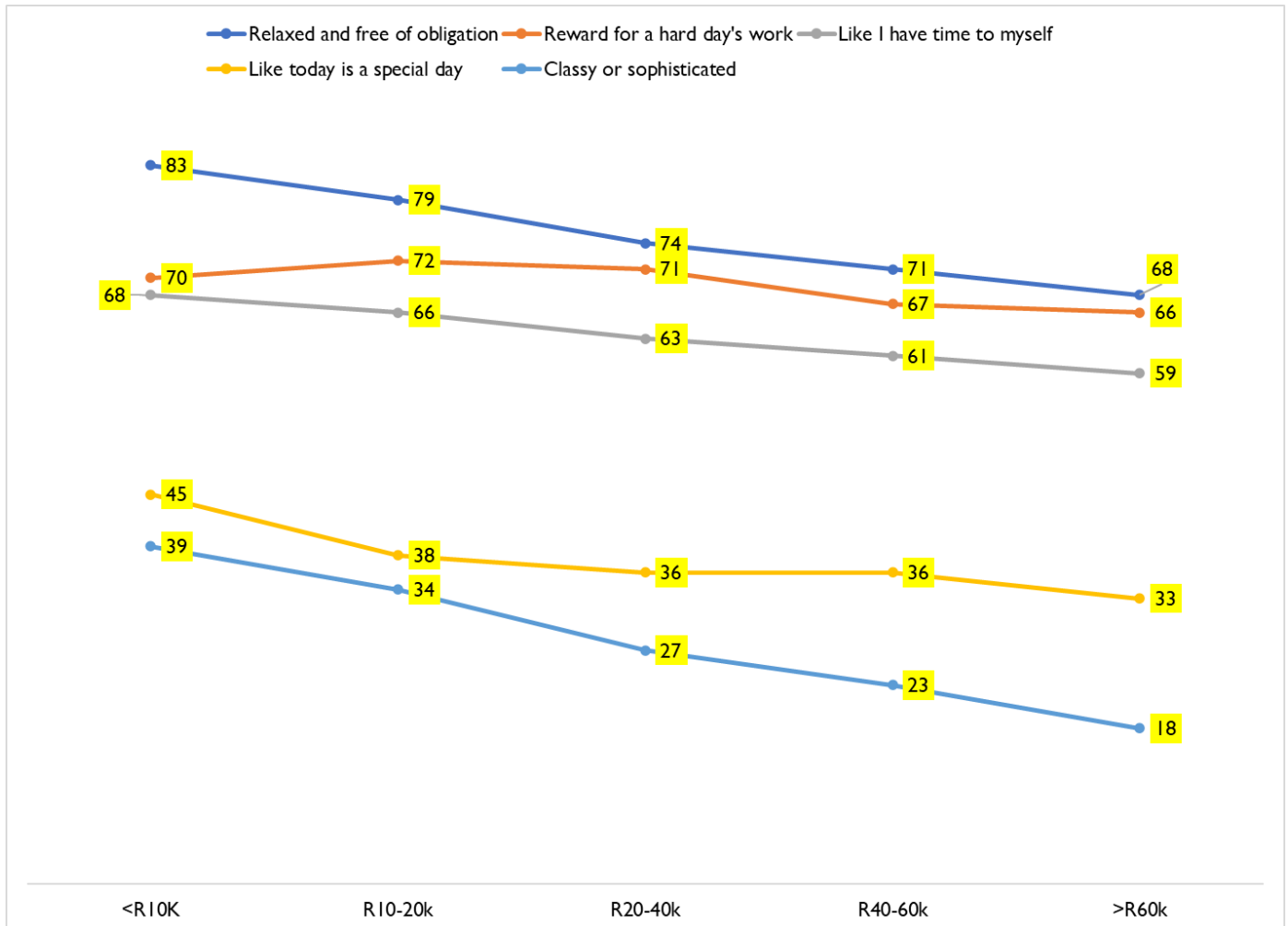
So, what do we, as an industry, do to fight back? Does the answer lie in copying what spirit businesses are doing as many are urging? When you look at the margins, the size of brands (or if not, the venture capital) and the resultant money invested, I'd say that we have to be smarter than that, in order to win.

I'd always thought that, as a business, WBS should have nothing to do with consumer research. I continue to be appalled at how former employers, national organisations and even our listed company clients get to pay hundreds of thousands of dollars for research that says “n = 1000 (people with nothing better to do), segment size = 176, so, therefore, the most engaged wine consumers in Canada drink Oyster Bay and Lindemans” or whatever.

If I were to risk our reputation, I thought, I would need to be completely comfortable with both the sample size and the analytical approach used. At very least, we would need to be able to cut the sample down to an accurate reflection of the whole wine drinking population without compromising statistical reliability.

An opportunity then emerged. The Tops at Spar Wine Show is the biggest wine consumer event in Africa. Last winter, almost 21,000 people answered 100+ questions as part of their ‘Great Big Wine Show’ survey. With that kind of dataset, it doesn’t matter which way you slice or dice it, you will still be left with a statistically reliable sample. So, what were the key findings?

Figure Three – How Does Wine Make You Feel? – Source GBWSS, KLA, WBS



The chart on the preceding pages asks - “How does wine make you feel?” The bottom axis is income per month (to convert Rand, think roughly 10:1 AUD, NZD, CAD or 14:1 USD. Note that as income increases, the number of responses per person decreases hence that tailing off effect)

Normally there is a high level of correlation between income, expenditure and engagement levels. Interestingly, and positively, I think, in terms of the future of wine in South Africa, a lack of income did not necessarily reflect in diminishing engagement in quite the same way that it does in wealthier markets. Like everywhere else, however, the more people earn, the more they spend on wine, the more they buy and the more sophisticated their buying process is. Hence, we still used income as the basis for segmentation.

Figure Four – Ultimate End Values sought by Wine Consumers – Source, Hall and Winchester

Brand	Target Customer	Benefits Sought	End Values Sought
Grange	Connoisseurs	Discernable quality and Prestige Brand Association	Sense of accomplishment Comfortable Life Social Recognition World at peace Equality
d’Arenberg	Appreciators	Discovery and learning	*Exciting life Sense of Accomplishment Social Recognition
Oyster Bay	Aspirantionals	Enhanced Social Status and Self Image	World at peace Social Recognition True Friendship Exciting life Sense of Accomplishment
[Yellow Tail]	Enjoyment Orientated	Special to share, Easy to drink	True Friendship
De Bortoli	Beverage Wine Drinkers	Recommended Reliability	Inner Harmony

Hall, J., & Winchester, M.K., (2000). What's really driving wine consumers? Australian and New Zealand Wine Industry Journal, Vol 15(4), 68-72.

**Added in. Not proven by this research*

Most of you will be familiar with the above by now. It reflects how the ‘ultimate end values’ sought by consumers change with income, expenditure and engagement levels and the extremely different ways, therefore, that you should look to position a brand in order to speak directly to each of these core consumers segments.

What seems to have happened during COVID is that consumers have coalesced around that ‘World at Peace’ end value. People are still buying wine in different ways and at different price levels dependent upon income. But at the end of the average COVID impaired day, most had the same thought in mind.



Winning wars is about winning moments.

The moment that wine won during COVID was that ‘end of the day reward moment’. In other words – “Well, that day wasn’t what I’d like it to have been but at least I can enjoy a glass of something decent with dinner (or in the bath)”.

There is an opportunity, therefore, for a wine brand, or even an entire wine producing country, to position a brand in a way that speaks to everyone. Victoria Bitter used that idea in the most successful campaign for alcohol in Australian history. “A hard-earned thirst deserves a big (chilled glass of wine, it would seem)”.

Most of you work in or run smaller businesses that perhaps don’t have a consumer insights team or the desire to conquer the whole wine world as it were and simply need to speak directly to the most engaged.

What was the most powerful insight from this research that relates to you?

If it is about winning moments, then the moment that put wine in its most powerful position in a long time is gathering around the dinner table at the end of the day. And that, again, is that line that can’t be crossed.

We’ve been saying to clients for decades that this is the only moment that wine truly owns and that the biggest risk to wine is someone coming to the table with something in a 750 ml bottle that can be passed around the table and shared that is a credible substitute for wine.

I was expecting it to be a more sophisticated flavoured wine product that did this. That has yet to happen. Gin provides a means through which to do the same thing but uses a more stable alcohol base. It does require either pre-mixing drinks or an RTD. This, and gastronomic advantage, give wine the upper hand.

What do we do to fight back and reclaim wine's once untouchable place at the table? I was challenged during the week by one of our smartest clients. He, like most people, was looking at a wineries' typical digital engagement strategies and was thinking that there had to be something better than this.

He was wondering about the merits of copying the spirits brands in terms of the way that they engage with their audience. But that is a strategy based on engaging their audience around their value proposition where they use their products in their most suited usage situations.

No point in fighting a war on anyone else's terms.

That, absolutely, does not mean that there isn't plenty we can learn from spirits.

I've written previously about how Ramon Bilbao (owned by a spirits company, Zamora) used insight about 'search and discovery' as it relates to the wine engaged consumer, to craft their brand around Ramon Bilbao the man, the tireless explorer.

This works extremely well in terms of differentiating their brand from the mass of Rioja brands.

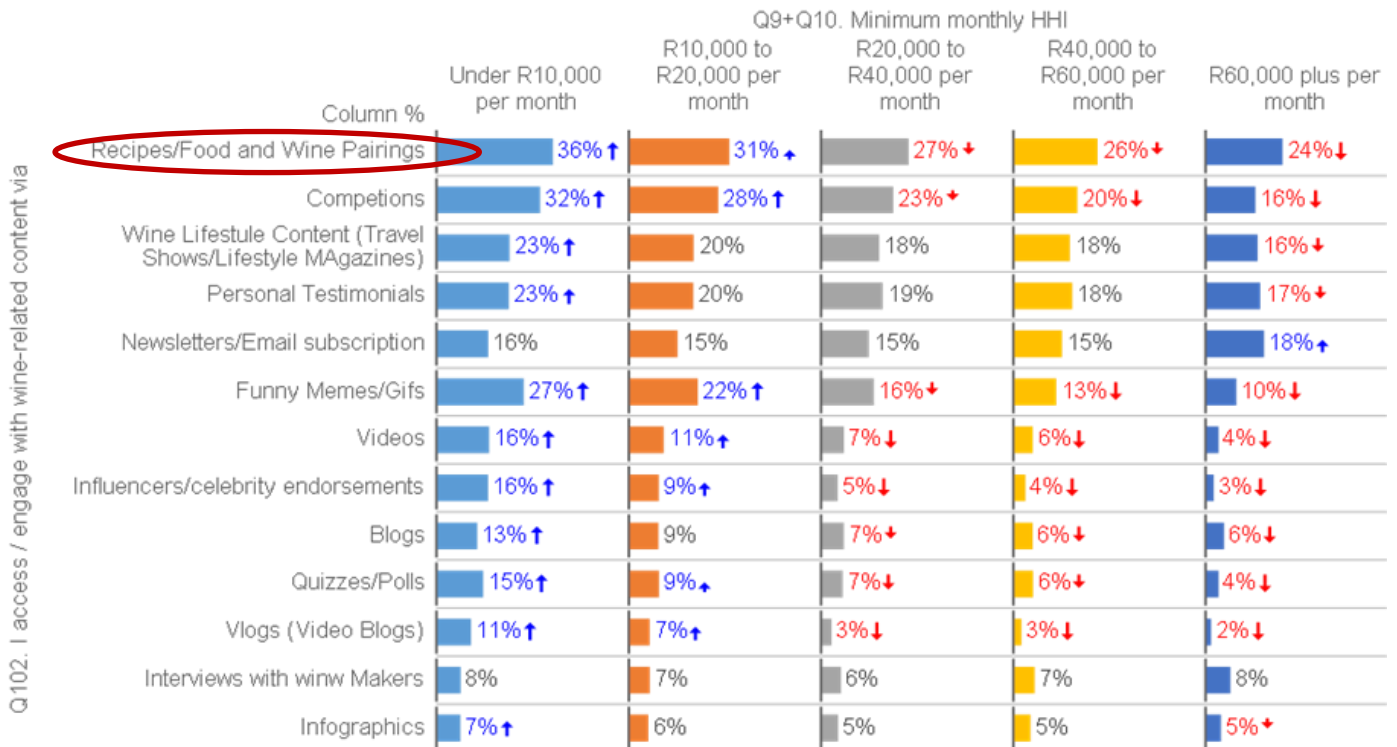
What can wine do as a category that starts with all the advantages it has and fully leverages them?

94% of wine gets consumed with food but as family dynamics changed and family members spent less time at the table (or dining out with family) there was pressure mounting on those wine consuming occasions.

COVID, however, did two good things for wine. It brought more families to the table (and the kitchen), and it encouraged people to spend more money based on what would have been an On-Premise purchase prior to lockdowns.

First rule of Guerrilla Marketing - If you don't have a massive budget, leverage someone else's massive investment. How many thousands of hours of food and lifestyle television have we been tortured with? When did anyone ever ask a MasterChef contestant - what wines goes with that? All of that blood, sweat and tears in hell's the kitchen (and annoying "how are you feeling now, sweetie" pieces to camera) and then the moment wine and food come together, everything changes. People have been left gaging for information.

Figure Five – What Content from Wineries do you Access / Engage with? – Source GBWS, KLA, WBS



If we truly are going to win the hearts and minds of customers, it is about understanding what content consumers want to engage with most.

It shouldn't be any surprise, then, that the single most desired type of information wine consumers are seeking is how to have more fun with the product. If you study the content strategies of the major spirits brands that is exactly what they are doing. But on their terms. All are pushing out (currently COVID related) content about how to make and enjoy drinks.

How to make and enjoy wine and food together, for some bizarre reason, remains almost virgin territory. Let's be clear. We are not talking about recipe cards or Insta photos of wine and food. We're talking about developing a fully integrated strategy promoting how wine can provide a pathway to a 'better' daily life.

There are brands like Jordan of Sonoma that come close to 'doing it all and doing it to excellence'.

Throughout our [online workshop series](#) we've looked at examples of how wine businesses have mastered the key component pieces – How to set up and manage your sales 'theatre', how Creation Wines sell wine and food education, how Swinging Bridge wines optimise wine and food experiences, how Robert Mondavi wines master merchandising, how Jordan and others develop their own lifestyle publications as digital content, how Felton Road produce videos that people actually want to watch and then how to pull all that together into a digital communication strategy centred upon what your customers want most - a vision of a better life based around food, family, friends, and fun at whatever level of sophistication suits your brand.

I was told by a client the other day that they didn't want a 'cookie cutter' approach to doing a strategic review. I totally understand. It is, however, possible (and necessary most of the time) to run a highly efficient analytical process that still produces truly unique, innovative and highly effective solutions. That is the only reason, I believe, for us to be doing this as opposed to anyone with a broader based consulting background.

We use examples in our workshops of brands that we work with who use our analytical and planning frameworks who then produces market leading results. (As a result of an enormous amount of hard work on their part, it should be emphasised).

Leveraging the sort of insights discussed in this paper requires understanding who you are as a business, your story, your business culture (all of which can and must constantly evolve) and achieving perfect alignment via your offer and communication strategy with your intended customers' most desired experiences. That, in a rather long sentence, is 'it' where marketing is concerned.

For our small business clients, succeeding is often as much about 'not doing' as it is about doing. Focus, in other words.

The Great Big Wine Show Survey provides some interesting insights into the efficacy of things that wine businesses either believe they should be doing, or worse, get guilted into getting an agency to do for them. Almost everyone reading this needs to be targeting the most premium part of the market for their business model to continue to work. Snoop Dog and friends can have the rest.

Many, for example, urged on by the major social media platforms, have put a lot of effort into shooting video, yet wealthier consumers show little interest in watching them. As earlier mentioned, there are people creating highly watchable content but that takes a lot of skill and / or investment. No one, it seems, needs to watch another video, for example, of a winemaker using a pipette to draw out a sample that the viewer can't see properly, smell or taste. Memes, influencer marketing, video logs etc work best with the youngest / poorest audience. They are important to someone. Someone with huge scale and a low-cost base usually.

If it's a matter of where to focus, in terms of a good wine, food and travel (we can dream) based strategy, these results make it clear. Lifestyle content, competitions, your own digital publications and yes, good old fashioned email communications and subscription marketing are what works supported by creative social media. There are ways to do all that so as to appeal to emerging consumers as much as those who have the means to buy the best of your offer. As always, if you need help with any of this, please do be in touch.

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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