Wine Business Solutions

The Wine Paper 65

October 2021

Reaching Escape Velocity

Well done everyone. We made it. It's said that in life there are few finishing lines. That is never truer than now with many still facing challenges. But made it out of this thing we have. So, what now?

We've just released our 'Taking the Direct Route 2021' direct to customer benchmarking report. Even during the worst of the pandemic, wineries were building their direct sales faster than they have any other business, in any other channel, at any other time. That needs to be celebrated.

The 141 Australian, South African and New Zealand wineries who took part in our survey increased their direct sales by 20% year on year, well ahead of the US (+13% for the 12 months to July 2021 vs 2020).

Even South Africa, who have been through more than anyone else in the wine business on the planet, managed to increase DtC sales by 17%.

So, what are the big learnings and where will opportunity be going forward?

The average Australian cellar door that is open 7 days a week is now a $A2Million enterprise. That puts DtC in a whole different space to what it was 10 years ago when large companies dismissed direct sales as a small, almost inconsequential aspect of their brand building. Indeed, Australia's largest companies have done worse than those of any country's that we benchmark. Opportunity still beckons. For all of them.

In the US, by way of contrast, aggressive M & A specialists Vintage Wine Estates have a $US200Million turnover, derive 30% of revenue from DtC and are busy gobbling up anyone with a database.

In South Africa, we had clients who, totally paralysed otherwise, got their trade salespeople directly involved in consumer tele-sales. This helped pull them through their toughest ever moment as a business.

Now I'm not suggesting that TWE, Pernod, Yalumba etc. do that but there is a model for successful direct sales for every type of business. The change and the charge, however, need to be led from the front.

The biggest opportunity, I believe, is for very small, very high-end, very direct businesses. The US experience confirms that there is almost infinite possibility for that on the East Coast of Australia, in Auckland, in Sandton (SA), in London etc. 27% of US bottle shipments are at $100+ according to SOVOS. LiveEx just announced this morning that prices of collectable wines are at an all-time high. People have never been sitting on more cash. It's just a question of who is going to be good enough to help them with that 'problem'.

The keys to success are no secret. Prebooked tastings. Seated tastings. Paid tastings. Better Service.

There is a misconception, I think sometimes, that you sit people down and money falls out of their pockets. It's not 'behinds' that are the 'success', it's movement away from that dreadful 'pour and hope, rote learnt product description spouted at you' type of experience toward genuine customer interaction and empathy.

And that really is the big challenge going forward. How to convince world class hospitality people that working for you 9 to 5 on a good salary plus signup bonuses is a better decision than working restaurant hours with its associated highly questionable lifestyle and never seeing their family again. Well almost.

The key here and the real value of our report is to look to global best practice, not what your neighbours are doing. For example, I was not so long ago asked, during that time when we had virtually no virus in Australia, to visit all 18 wineries in a region.

All had copied each other. All were doing three critical things somewhat worse than incorrectly. All were not charging enough for tasting. If you are charging people $5-10 to receive that same awful service experience that customers used to get at the bar, then that is adding insult to injury rather than adding value. You want people to pay for service and be pleased they did so.

Secondly, they were all tasting every wine made by that producer. The art of selling and the secret behind nearly all those great brands we've referenced in these Papers over the years, is offering people as <u>little</u> choice as possible whilst all the time making them feel that they have all the choice in the world.

Thirdly and most importantly they were using upturned barrels and bar stools. You want people to be comfortable. No one who is over 40 or who has played contact sport should be sat on one of those things.

In terms of what presented as the 'low hanging fruit' from this year's research, meaning those things that wineries would get most benefit from addressing, collecting contact details is near to top of the list.

Figure 1 – Percentage of Participants Collecting Details and Ave. DtC Revenue Generated

	Aus		SA		NZ	
Always or Usually	$ 1,958,582	41%	$277,217	29%	$190,782	50%
Sometimes - depending on resources	$ 1,369,400	33%	$849,927	18%	$ 54,231	50%
Only if they join the Wine Club	$ 1,345,182	22%	$713,719	53%		
No	$ 865,275	4%				

Still, more than half of wineries are not routinely capturing customer details. There is a misconception that you should only collect details from people who join your loyalty program on the spot. Wine Direct research shows that more than 20% of Club signups happen post the tasting room visit. You would miss out on most of that if visitors weren't followed up by email or phone to do so.

At a time when over 60% of wineries are using an online booking system for tasting reservations, only 7% of survey participants said that they were using these systems as a primary means to even count visitors.

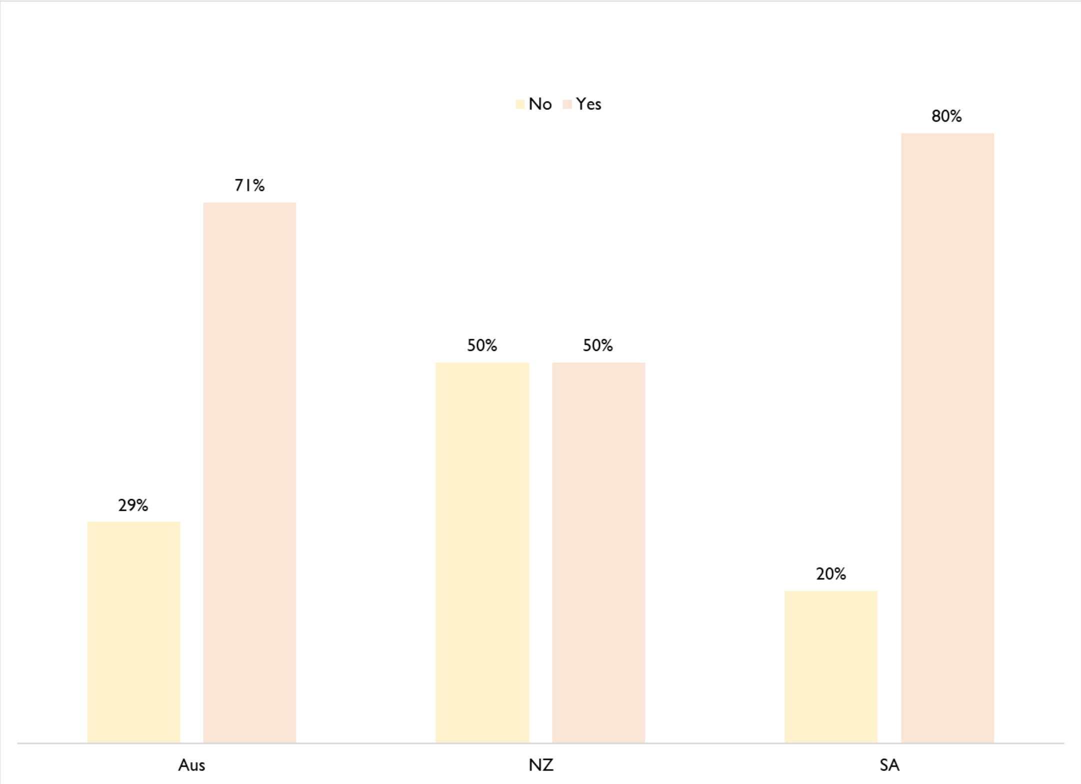
Figure 2 – Percentage of Surveyed Wineries Counting Cellar Door Visitors

Method	Aus	SA	NZ
Staff Estimates	24%	6%	25%
Recorded on POS	22%	18%	
Counter - Clicker or Door	13%	12%	
Booking System	7%		25%
Count Transactions	4%		
Manual	4%		25%
Tastings poured/glasses used	1%		
Don't Count	25%	65%	25%

This is a little like when you check into a major global brand hotel and they ask – "is this your first time staying with us sir?" when it's your 37th and you know that they should have enough data on you to know what coloured underpants you are wearing today. They're black, of course…

We've never had more information. We just need processes in place to leverage it. As above, there are still many businesses that do not even count the people / money when it walks in the door.

Figure 3 – Percentage of Participants with a Wine Club



The next most over-looked 'gimme' is having a wine club. Still nearly a third of Australian wineries don't have one which typically means kissing goodbye to $400k in revenue.

At least in the US and Australia, most wineries understand the concept of a wine club. In South Africa and New Zealand, there are still a lot of people who think that a mailing list is a wine club. Equally, there are online retailers in those countries who deliberately confuse things by calling what they do a 'wine club'. This wouldn't happen if what wineries were doing was different to what online retailers do (i.e. flogging grog).

That is a terrible mistake to make in my view. Having your most loyal customers sign up to be marketed to at a discount (as opposed to agreeing to a fixed priced subscription) is one of the fastest ways to drive the value out of your database. People who have always liked and bought your wine will view it as a bonus initially, but enthusiasm then tends to wane quickly at the same time they begin to expect that all offers will be at a discount. I've had clients who have had to scrap their database and start all over again as a result.

The reason why the best Australian businesses have become more successful at 'wine clubs' than even the US businesses that invented the idea is that they truly understand the meaning of 'club'. That is, they get the power of belonging. The bundle of benefits, with access to owners, winemakers and key staff at the top of the list, is so compelling that discount is very much a secondary, if still important consideration. Other benefits might include where they are sat, what they look at, what sort of stemware they get and other subtleties along with all the other more obvious privileges in relation to wine, food, events, and kinship.

Figure 4 – Levels of Discount Offered on Club Sales (Primary Tier) and Club Revenue Generated

Discount	Ave Revenue	Share
11% - 20%	$ 447,817	66%
More than 20%	$ 418,386	16%
Up to 10%	$ 415,170	16%
Average	$ 431,194	

For the first time this year, we included a question about discounting. The worst thing we see, when out and about looking at the different approaches people take to acquiring club members, is excessive discounting. One business that I visited recently was offering 30% off just to get people to join their database marketing list that they were calling a wine club.

The average well-functioning wine business has an EBIT (profit) margin of no more than 15%. Even though direct sales have a higher gross margin, the cost of attaining those sales is often close to that additional margin generated. If you give away 15%, therefore, you are giving away all your profit under that scenario.

The tragic thing is that those people that gave away more than 20%, ensuring that piece of business could not be profitable, generated no more club revenue, on average, than those that gave away less than 10%.

This is why business owners, club managers and financial controllers need to work together. There is no evidence that a 15% discount will work better than 10% for your primary club nor that a 20% discount works better than a 15% one for your top level. You could, based on the above however, either be doubling or halving you profit dependent upon which way you go with that decision.

Figure 5 – Average Club Sales and Attrition Rate by Freight Option for Primary Club Tier

Freight	Ave Revenue
Flat rate	$ 474,662
Free for orders over a certain size or for members at higher tiers	$ 439,766
Free on all orders	$ 394,182
Calculated based on cost	$ 330,600

Our research, year after year, also shows that there is little difference in club sales between those businesses that give freight away for nothing and those that charge a fair and flat rate. There was, also, little difference in attrition rates between those that charged and those that did not. Moreover, setting the hurdle for free freight at the right level is a far better strategy than giving it away. Wine Direct research confirms that people will do just about anything to get free freight including over 30% of people being prepared to join a club. Better to upsell, therefore, than give freight away.

Figure 6 – Lifetime Customer Value

Region	Ave Life	Annual Club Sales	CLV
Great Southern	69	$ 635	$43,828
Robertson	37	$ 314	$11,610
Franschhoek	23	$ 13	$ 286
Rutherglen	20	$ 308	$ 6,050
Clare Valley	19	$ 262	$ 4,911
Barossa	9	$ 544	$ 4,800
Adelaide Hills	9	$ 277	$ 2,427
Orange	8	$ 260	$ 2,011
Margaret River	7	$ 410	$ 2,749
Hunter	6	$ 507	$ 3,075
Canterbury	6	$ 61	$ 367
McLaren Vale	5	$ 324	$ 1,480
Yarra Valley	4	$ 655	$ 2,660
Stellenbosch	3	$ 329	$ 1,037
USA Ave	3	$ 784	$ 2,090
Mornington Peninsula	2	$ 307	$ 674

Note – Average customer life calculated from 1 ÷ attrition rate.

Customer lifetime value is one of the most important concepts where direct sales are concerned. Perhaps the most enlightening chart in this year's report is the one above. One of the more interesting observations from our research this year was that the more difficult a wine region is to get to, the bigger the percentage uplift in visitor numbers. Once let off the lockdown chain, it seems, people really wanted to test the limits.

If we take the case of the Great Southern, one of the most isolated places on earth, last time I drove there, I didn't see one car on the road for the last two hours. Everyone feels a great sense of arrival and you are royally entertained when there. Customers then agree to buy a good amount of wine on an annual basis driven by the feeling that the winery is a 'discovery' offering incredible quality / value. Some of the best producers in Australia are located there. Once they become club members they virtually don't leave for the course of their natural life. Each individual club member acquisition is worth a fortune to the business.

If we then compare the Franschhoek winery that calls their database marketing a wine club, they don't ask for much, don't have much attrition consequently but each club member isn't worth much. Contrast that with the Robertson based business who are running a fully-fledged commitment club and who also have low attrition and the difference in lifetime value is extreme.

If we then look at businesses in the Barossa, Adelaide Hills, Hunter, Margaret River etc, who have both a moderate attrition rate and decent but not extreme club member wine purchase requirement, they are actually better off than their more aggressive US counterparts, on average, as they are generating more revenue over the life of the customer, meaning lower acquisition cost per member as well.

Aperture Cellars, Healdsburg, California

It's been a great privilege to have been asked by William Reed to be founding global chair of the 'World's 50 Best Vineyards'. Craggy Range was highest rated in Australasia this year, coming in at number eleven.

I was talking to owner, Terry Peabody, in his restaurant. I was saying that I felt it a pity that he hadn't been able to maintain his sales team in Australia but that his new importers were doing a brilliant job. He said to me that he too was very pleased with what they were doing but that that wasn't what concerned him most.

He pointed at the floor and said something that I will never forget. He said - "this is what matters most to us". He realised that even for a 100,000 plus case production business with a global footprint, what happens at his cellar door, restaurant, accommodation and his wine clubs is the true heart and soul of the business.

It is for the rest of our best clients, who realise that what happens when trade and media visit is also the most important interaction that they will have with them, that it all can and must be '5-star all the way'.

Now that doesn't mean that you have to be a billionaire to deliver that experience. On the contrary. Indeed, research confirms that what the world's most well healed wine and food tourists want, more than anything else, is that very 'real' interaction with the makers of artisanal products.

How to do that, how to set up your 'theatre' and how to manage all the processes around that is a key focus of our workshops and consulting.

What about going forward then? International DtC is the next big opportunity and the right place to start when taking a concentric brand building approach. If we take the world's biggest and best market, the US, what approach will work best there? On the DtC front, there are in-market fulfilment specialists who import in bulk enabling a much better outcome for all than door to door shipping ever can. We can advise.

When it comes to then expanding your sales outside of your core fans that you were able to connect with either digitally or via them visiting you prior to lockdowns, that is what our Wine On-Premise USA 2021 report is there to help with.

We look at who the best importers are nationally and region by region and give a big focus to strategy evolution where the lead supplier countries are concerned.

Figure 7 – Share of Sauvignon Blanc By-The-Bottle Listings 2021 vs 2020

Region	2021	2020	CHG
Marlborough	31.9%	29.7%	7%
Loire Valley	22.0%	18.9%	16%
Napa Valley	16.8%	20.7%	-19%
Sonoma Valley	5.7%	6.1%	-7%
Friuli	3.2%	3.0%	7%
California	3.1%	2.0%	54%
Russian River	1.9%	1.9%	1%
Washington	1.6%	1.5%	2%
Trentino Alto Adige	1.3%	1.5%	-18%
Paso Robles	0.8%	0.7%	27%
Central Valley	0.8%	0.6%	30%
Martinborough	0.7%	1.2%	-37%

Starting with New Zealand, listings of Sauvignon Blanc are up 3% to over 19% of all white wine listings. Marlborough is, of course, leading that. So, all looks 'sweet as' in headline view. All the tell-tale signs of 'category rot' that we have been warning about for the last 5 years or more are, however, only amplifying.

New Zealand still has the lowest average listed price of any supplier country. We've seen a least five major NZ wine business go broke during the last year or so. These two facts are not unrelated.

Added to that, as in all markets that we measure, the Loire is growing faster than Marlborough. It is only because the wide US On-Premise market is currently under 'recover pressure' (reflected in the big increase of low priced Californian designated wine) that the Loire is not growing faster still. When boom times return, you can bank on the Loire further accelerating. Position yourself as 'best' and that always happens.

Meanwhile the opportunists are entering and many bogus brands are emerging in much the same way that they did before the collapse of the Australian brand in the US. Sauvignon Blanc makes up 93% of New Zealand's total listings. Pinot Noir listings, once the great hope for the future, are now just 2% of total.

So, despite fruit shortages and impressive headlines about ever expanding sales, the alarm bells ring ever louder for New Zealand. What's the answer? NZ Winegrowers continue to do a good job of influencing top sommeliers and wine critics. That is, generally, not the issue. It's about getting New Zealand's best producers into proper distribution. The best way to support that is with a comprehensive wine tourism and DtC in market promotion strategy. So, several moving parts but a big base from which to springboard.

South Africa, on the other hand, has yet to establish itself. Old vines Chenin, Red Blends and Cabernet remain the way in. The Loire is, once again, the nemesis only this time they totally dominate. Loire Valley Chenin Blanc makes up just under 60% of total On-Premise listings (+9% v 2020).

Without a premium strategy, strong regional brands and rules everyone agrees to abide by, South Africa will continue to get picked off at the top by higher priced (equating to better perceived quality) French wine and at the bottom by California designated product. There is a way forward for South Africa, but it is all about understanding just how different, in every aspect, a premium led market is to a value driven one.

Australia, still to hit rock bottom, only has 1.3% of listings, less than Germany and Portugal and less than half what New Zealand has.

It might surprise you to learn, therefore, that I am more optimistic about Australia than any other supplier country. Why would that be? If you look at the way the American palate profile is changing, it reflects what we are seeing in every other market.

The key difference is that, rather than Rhone wines being the biggest driver of growth, Rioja is having a run in the US like never before seen. Either way it is medium weight, spicy, interesting, food friendly wines that are driving growth.

This had been the biggest hole in the Australian offer. Australia's is now one of the best sources of these wines internationally. Jackson Family Wine Estates' investments in Australia bare witness to that.

We saw it first in the rise of Pinot Noir. Italian wines enjoyed a massive boom from 2017-18 (up 50% year on year in the US). Just as we are seeing now in Australia and the UK, new incarnations of Grenache are exploding. Malbec keeps on building, but it is Shiraz that is the most misunderstood / capable of greatness.

Figure 8 – Total Red Wine Listings by Varietal 2021 vs 2020

Style	2021	2020	CHG
Pinot Noir	16.9%	17.0%	-0.3%
Cab Sauv	15.6%	16.3%	-4.4%
Red Blend	8.3%	7.8%	7.2%
Merlot	7.5%	7.6%	-1.1%
Malbec	7.2%	6.8%	6.0%
Sangiovese & Blends	6.9%	7.3%	-5.2%
Zinfandel	4.4%	4.8%	-7.6%
Tempranillo & Blends	4.1%	3.0%	36.9%
Nebbiolo	3.8%	3.8%	0.5%
Shiraz	3.5%	3.6%	-1.6%
Rhone Blend	3.2%	3.0%	6.8%
Bordeaux Blend	3.2%	3.8%	-16.1%
Barbera	1.7%	1.8%	-4.9%
Amarone	1.5%	1.3%	17.1%
Grenache & Blends	1.5%	0.8%	85.8%
Montepulciano	1.2%	1.4%	-11.8%
Gamay	1.2%	0.9%	33.9%
Cab Franc	1.1%	1.2%	-10.5%
Valpolicella	0.9%	0.9%	3.0%
Nero d'Avola	0.8%	0.7%	2.7%
Primitivo	0.5%	0.5%	-8.0%
Others	4.9%	5.8%	-15.6%

In terms of countries that can make these styles, that have had decades to perfect them, to find the right locations and climates and match all the majesty of Europe but with ripe fruit consistently, Australia has more possibilities than anyone who has yet to come onto the radar of most Americans.

Young winemakers like Alex Head, Matt Swinney, Hunter Smith (Frankland River) etc have figured out the 'killer style' for Shiraz going forward. Grenache and Red Blends and Riesling need to play a supporting role.

Again, it is getting into the right distribution that is key. The pull through is going to be all about consumer engagement. Yet another 'gift of covid' has been forcing wineries to master the direct sales skills necessary.

The doors are about to swing open.

Those with the best direct consumer engagement strategies at home and in importing markets will win.

The English-speaking producer countries of the Southern Hemisphere really ought to have supreme advantage under that scenario.

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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