Wine Business Solutions

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Leveraging Insight

And they're off'! Every year, at this time, it feels like all the best providers of free wine business intelligence, globally, conspire to release their most important work all on the same day.

Silicon Valley Bank, Sovos, the Direct-to-Consumer Symposium generally, Euromonitor, platforms including Wine Direct and Commerce7 etc. simultaneously unleash an avalanche of priceless information that helps inform our content and advice. And the next week, the Unified Symposium hits you with more…

That is mostly information. We deal in insight. What's the difference and what's worth paying for?

You can divide most paid-for so called 'business intelligence' up into three:

1. What consumers, competitors and trade customers did.
2. What wine companies believe happened based on records of revenue generated.
3. What people say they did or will do.

The most expensive, of course, is 'what actually happened'. We know of one medium sized wine business that paid one famous name provider $400,000 in a single year for scan data (summarised retail transaction data). That is the same figure, coincidentally, that two other businesses that we know of paid, whilst distressed, to a certain global Top 5 accounting firm. Those business don't exist anymore either.

If you want to get a look in with a major retail anywhere in the world today, however, you need scan data. More than that, you need people who understand professional key account management. We know of excellent people that provide this as an outsourced service. As is our promise, we have no commercial relationship with them nor they with us. Our job is simply to point our clients in the right direction.

Category Two, 'what wine companies believe consumers did, based on their records of revenue generated', is what we get when we benchmark wine businesses. For literally a one thousandth of the cost of Category One data, we think our benchmarking reports and other products represent pretty good value.

The limitation, where benchmarking products are concerned, is that you are dealing with wineries' version of what happened. Having said that, Wine Australia are brilliant and going back to people who have clearly made a mistake, when entering data into our joint DtC survey, and getting them to resubmit. I may or may not get as good a response if I were to do that. After more than 10 years, regular participants have gotten steadily better at doing this. We can now drive a wealth of insight, from the information provided, reliably.

Falling into the class of 'almost totally useless' is 'what consumers say they did'. This is second only to 'what consumers say they will do'.

This is not to disrespect quality qualitative consumer research. Sometimes the only way to know what is in a consumer's mind is to ask them. The best qualitative researchers can produce powerful insights that help position global wine brands. We did this at Freixenet, when I worked there, and this helped drive exports from 3 to 9 million cases in just 5 years. We used the same approach in positioning the Marlborough brand. So, it does work. Indeed, WBS is still involved in large scale consumer research projects today.

Where it all goes horribly wrong is when researchers, accountants and software vendors start making recommendations in the absence of commercial understanding.

For example, a recently released study claimed that 50% of consumers pay less than $20 a bottle in the tasting room / cellar door. A sizeable portion claimed that they paid less than $10 which, of course, does not exist. This despite us already knowing what consumers are actually paying across most regions of Australia, NZ, South Africa and the US from multiple reliable sources including our own benchmarking.

To test this, I used a sample of 53 of 80 cellars doors in a region known to be one of the cheapest in that country. The 53 wineries listed 1147 wines on their web sites, only 90 of which (8%) cost less than $20. Only one winery in three had any wine, even the stuff they don't sell at cellar door, for under $20 a bottle.

This then begs the obvious question **-** If you have objective, definitive data, why ask for an opinion?

It gets even more dangerous when research companies start providing advice on price positioning. Everyone's prosperity is tied up in getting pricing right. That is why we give it so much focus.

I once witnessed the largest business in the wine consumer research space suggesting that there was opportunity, for one of the world's most important wine regions, in the UK at £4.99.

Anyone who understands the first thing about the UK knows that £4.99 is not a sustainable opportunity for <u>any</u> wine region. The head of that regional organisation later confirmed to me that they successfully transitioned out of discounters and out of those price points across Europe well aware of the 'bum steer'.

Insight is what happens when you overlay quality market intelligence with comprehensive global commercial understanding. You are not going to get that from a research firm, software vendor or accountant.

All the preceding could happen innocently. As Warren Buffet's righthand man Charlie Munger says, "knowing what you don't know is the dawning of wisdom". But what about when researchers knowingly try to cover up their research's shortcomings, overclaiming what the research represents?

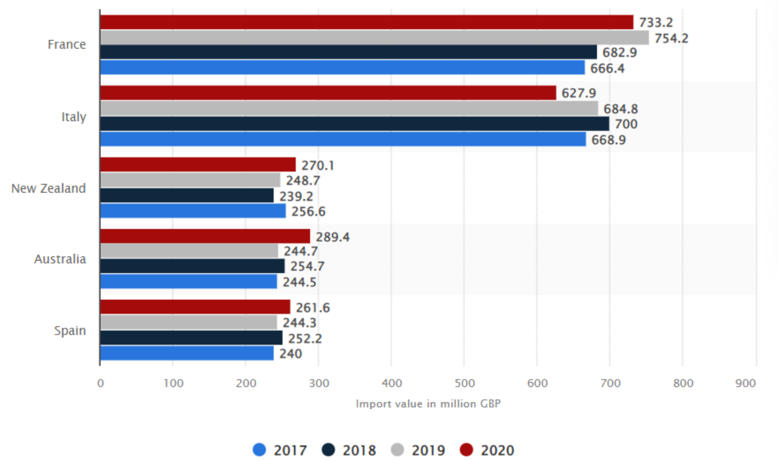
In the early 2000s, a former employer paid over $300,000 for a report, prior to me joining the business as head of Marketing, that said that because people over 60 did not like filling out online forms, at that stage, that no one over 60 drank wine. The largest suppliers of supermarket data in each country routinely claim to be representing the whole category, despite not having access to the data of the largest wine retailer. Drawing attention to this puts huge focus back on us to make sure that what we do is exactly 'what it says on the packet'. We do our absolute best to explain the limitations of each piece of work we put out.

The worst of all mistakes is to believe that any single source of data represents the whole opportunity. For decades, the national organisations of Australia, New Zealand, South Africa, Chile etc took research providers and the major supermarkets at their word when they claimed that price points and volume proportions in supermarket where the same as for the category in total.

It was easy. You could track change over time. It was wrong in the most horrible possible way. Scan data from retailers always represent the tail end of the market, even in the US where they are far closer to having complete data than any other market.

A composite of all channels is required in order to work out what your pricing needs to be. Some of the world's largest wine producers and whole countries have still to figure this out. Import statistics, duty and tax paid figures are far better indicators. Australia has more than double the volume of French wines sold through supermarket in the UK. France achieves more than 2.5 times the import value of Australia.

Figure One – The Value of Wine Imported into the UK – Source, Statistia



According to bw166 (Gomberg Fredrikson), in a 'normal year' (2019) the value of DtC and On-Premise combined equal 38% of all US winery revenue and just 21% of volume. This is similar for most supplier countries albeit that the mix of DtC and On-Premise revenue can vary. Get the weightings and resultant ideas about price wrong for your size of business, region or whole country, even, could be hugely costly.

When arriving at an integrated view of what your pricing should be across channels, you need to consider that:

- Chain Retailers drive prices down to what your wine costs.
- The On-Trade is driven by paying their rent and their staff through optimising price.
- The Direct Channel is driven by what the consumer will pay when standing in front of you.

Each produces an extremely different outcome in terms of both pricing and what your offer can/should be.

If we start by looking at the simple difference between On and Off-Premise pricing in Australia (which, these days, is similar to many other markets before currency conversion), the single most commonly occurring price of a wine list is $55, according to our On-Premise research, which typically earns the winery around $130 per case. A bottle sold in retail achieves an average of not much more than $10. That case of wine would earn that (necessarily huge) winery just $40. This, however, is hardly a fair comparison.

But what about the same bottle of wine sold in the On-Premise versus the Off-Premise? To analyse this, we took the single most listed wine in the Australian On-Premise (so as to have the maximum amount of data) and compared the returns with selling in retail. There are complaints of restaurants expanding their margins. Certainly, that is true of the major premium chains. Equally, distributors and retailers (especially after factoring in all those rebates and other terms) can be accused of doing the same thing. But margins are margins and are general to all markets and all categories. Ultimately, volume is the only true moderator.

Figure Two – Australia's Most listed Wine, On-Premise – Returns when sold On vs Off-Premise

Ave Price OP				**Off-Premise Mode**		
Plus GST	$ 60.41			Plus GST	$ 29.99	
Mark Up 250%	$ 54.92	60%		Retailer Margin	$ 27.26	30%
LUC incl WET	$ 21.97	29%		LUC incl WET	$ 19.16	29%
Wholesale Margin	$ 17.03	30%		Wholesale Margin	$ 14.85	30%
Price per Bottle	$ 12.00			Price per Bottle	$ 10.42	
Revenue per Case	$ 144.00			Revenue per Case	$ 125.00	
COGS	$ 62.50	50%		COGS	$ 62.50	50%
Admin	$ 25.00	20%		Admin	$ 25.00	20%
Sales & Marketing	$ 18.75	15%		Sales & Marketing	$ 18.75	15%
EBITDA	$ 37.75	26%		EBITDA	$ 18.75	15%

Note – LUC incl WET means cost to outlet including 'Wine Equalisation Tax'

What you see then is that that winery typically receives 15% more revenue for an On-Premise sale than an Off-Premise one. The kicker is that that 15% then results in profit doubling under this costing scenario.

So, all that whinging that you hear from senior management, from logistics, from salespeople, from certain types of distributors about the On-Premise being 'too hard' really ought, now, to be melting away in terms of your focus, especially after considering all the other brand building benefits of On-Premise sales.

When you have a strong brand in the On-Premise, that then puts you in a great bargaining position with retailers. That same brand recently increased its RRP from $23.99 to $29.99. Further, the brand is so strong that RRP almost equals actual price achieved. We calculated that this then added $2.5Million onto their bottom line based on 100,000 cases of sales, more than enough to fund 'brand champions' in every State.

One of our workshop attendees described these as the most important insights from our Improving Wine Business Profitability webinar series. And, I think, with good reason.

This is simply an example of applying our data to publicly available information overlayed with commercial understanding. The real power and possibility stems from digging deeper into your own data as we do, always in strictest confidence, with every business that we work with. So far, we have done this for over 300 wine businesses of all sizes and all types globally as well as regions and wine producing countries.

What sort of things can we do that readers may or may not be aware of?

1. Pricing - We can use readily available third-party data, our own proprietary research, research using free online sources along with client data to help clients optimise pricing. This, more than anything else, determines wine business success.

   You've only to read the publicly available books of Delegat Wine Group (Oyster Bay) or those of the company that I used to run in Marlborough (these days the Foley Wine Group, NZ) to see that this is the absolute truth. Quoting former Delegat's CEO Graeme Lord – "We employ people who enjoy the commercial challenge" (as opposed to those who struggle to stay engaged selling 5 wines).

2. Distributor selection. When we started doing our On-Premise research, we did it thinking that the market for this product would be SME wineries. Instead, those that, it could be argued, need the information least (i.e. distributors and large wine businesses) are the main buyers despite the, very reasonable we think, price. Whilst these businesses know exactly what to do with insights provided, the greatest value of the report lies in brand owners identifying who the best distributors are.

We do this across 6 out of 7 of the largest markets for imported wine as well as Australia, NZ, and South Africa. How important is it to have the right distributor? After more than a decade selling wine in 45 countries, I thought I understood distributors. I believed that they fell into three classes.

I am currently doing a review for a major logistics provider, owned by a distributor and wine producer. It highlights just how many so-called third-party brand distributors there are out there that don't even register in our research. That initially gave me cause for concern.

When you do the Dunn and Bradstreet check on them, they typically don't generate enough revenue to pay themselves. This was especially the case when Hipster wine took off, almost 10 years ago now. Got to love them. Got to love their passion for wine. Got to not do business with them…

The next class, and these are highly elusive, are strong brand orientated people with a tiny portfolio. Most Hennessy, when they used to carry third party brands in Australia, was a prime example.

The third class sit on a huge book and don't do 'a job' for anyone. Or so it is alleged.

How wrong was I. There is a fourth class. The strong distributor who is entirely brand focused who keeps their portfolio tight and their focus on their Principals. Berkmann in the UK provide a great example as do Kobrand in the US. There are generally no more than 10 of these guys in any market.

The question you then must ask yourself is, am I one of the 10 best brands in my region? Because you sure as hell don't want to be with the 11th best distributor. The Top 30, including category specialists, control up to 90% of all wine list real estate in any market. Knowing who they are will be the difference between achieving success in any market and not. Equally, knowing what the strongest brands, regions and wine styles are globally is the main determinant of distributor success.

3. Everything else. We've done everything including helping distributors around the world improve their portfolios via opportunity analysis. A leading New Zealand distributor improved their listings by 50% in one year through, in part at least, taking our advice. A major wine peak body has just gotten us to do a 10-year retrospective using data and a trade survey in order to inform future strategy. Winery clients, too, are starting to understand the real value of leveraging data analysis.

   We're back to running live workshops in a number of countries - woohoo! Just not WA and NZ yet. Seeing you all again, learning about how you navigated recent challenges and sharing success stories is going to be uplifting. As always, if we can help in any way, please just 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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