

Wine marketing: what's involved?

Steve Goodman

*Partner, Souter & Goodman Wine Marketing Consultants
PhD Candidate – The Graduate School of Management, The University of Adelaide*

Introduction

The ever-increasing growth of the wine industry in Australia and New Zealand has been accompanied with increasing attention to wine marketing. Although most industries have already moved to a marketing concept, the wine industry – like many other primary producers – has only recently moved from a production concept of business. Although the large wine producing groups have extensive marketing departments, the small to medium wineries (SMEs) are largely reliant on their distributors to market and sell the wines they make.

Why marketing is so important

In a market with such intensity of competition – not just other wines but also spirits, beers and other beverages – it is essential to exert influence over the destiny of your own brands. Imagine the horror of one ultra-premium producer who discovered his gold-medal winning \$34 Chardonnay being sold online for \$24.50 – is the wine discounted or is this in fact its new price? In this example, the winemaker was not aware of the distributor's actions in selling the wine to the eTailer – the maker is largely reliant on the distributor to formulate its own marketing plans for the brand, include it in its portfolio of products and offer it for sale. Top quality wine producing is one thing - top quality wine marketing is another. How many times do we hear that good wine does not mean good sales?

Most SME wineries (those that process less than 1000 tonnes) have small numbers of employees within the firm. Winemaking and growing are time-consuming processes, as is running your own business – there are only 24 hours in a day. Add marketing into the other activities you must do and time becomes a very scarce commodity. For this reason, many SME wineries do not market their wines; they make wine (great wine in most cases) and rely on their distributor to sell it for them. At risk of offending winemakers, this is not marketing – at best it is representative of a sales orientation to doing business. Marketing is much more than designing well-branded labels or being a member of a regional 'marketing group' with fancy flyers and presentations. More importantly, marketing is very much more than designing solid distribution arrangements if all activity is left only to the distributor. Whilst many distributors offer good services, it is not their job to represent YOUR brand – they represent many brands. It is their job to meet their own internal sales objectives, whether that be your wine or someone else's.

Whilst the importance of a good distributor cannot be overstated, July 1 2000 brings changes to taxation that make it essential for the winery to sell \$300,000 of wine direct – be it cellar door or mail. WET tax exemptions up to this amount add up to 29% on the wholesale amount; an \$87,000 rebate (Hooke 2000). This alone sets \$300k as an objective for all wineries to meet in their direct sales. Direct sales are the key words – not just cellar door, but direct mail and Internet sales. Time to take the plunge and establish a 'virtual cellar door' in cyberspace. In essence, your winery has a virtual cellar door in cyberspace. I can operate an eWine Club, build relationships with the marketplace and transact electronically.

What is involved in wine marketing?

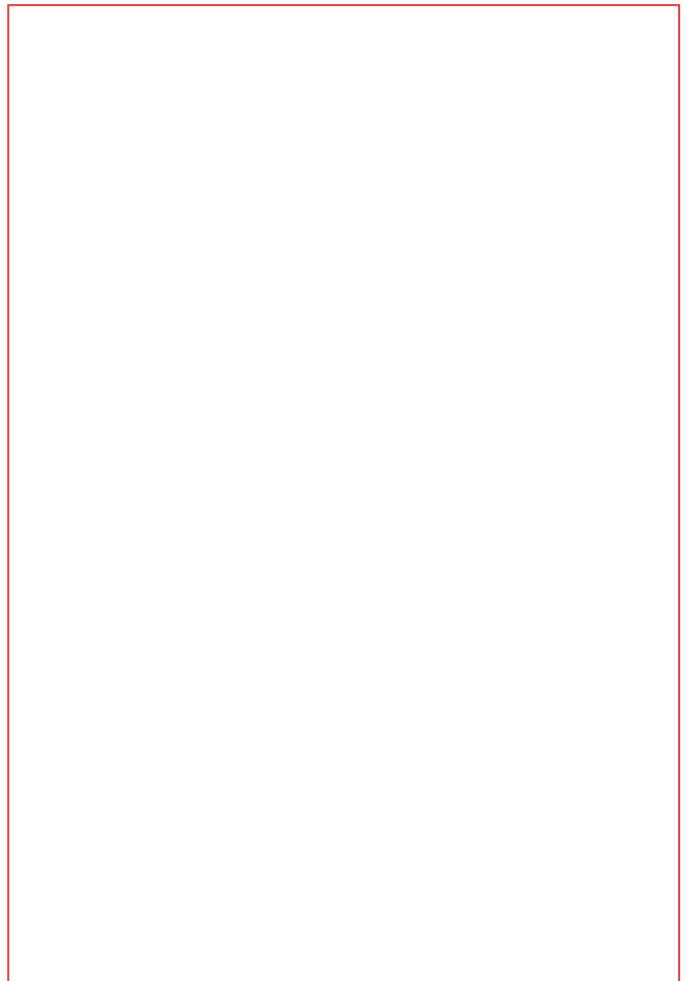
It is near impossible to discuss marketing in a textbook, let alone this article. The aim here is to provide a framework that allows wineries to see what needs doing, what can be done and make a decision as to how they do it.



• Steve Goodman

Direct marketing

All too often this activity is relegated to a once or twice a year 'newsletter' from the winery owners to everybody on their mailing list. Whilst this sells wine, it does not build a relationship with potential customers – if they didn't give you their names, addresses and e-mails they wouldn't be interested, but if they do then vital direct sales and brand-building opportunities are missed if this is not regularly carried out to involve the customer with the 'community' you build – from the vine to the glass, make them feel a part of what you are. You do it because you love it (most of the time!); let customers share these feelings. E-mail databases offer enormous cost and time-savings – collect your customer's email addresses, 41% of Australians use the Internet. Do you? Do you tell your customers when budburst occurs, how the vines are looking, when picking has started or how the wine is developing prior to release? ►



Database management

A database is only as good as the relevance and freshness of the data it contains. Do you manage your database or just 'keep one'? Do you analyse the segments on your database, or just send the same thing to everyone? Although it can be costly, how often do you call the regular buyers on your list and see how they are doing? If your database is small make the effort to grow it, look at what databases you can access or engage a marketing consultant who can do this for you. Your database is the first step to reaching the \$300k target. You become the master of your own brand and reap increased profit margins. Although e-commerce looks daunting, it is a tool to incorporate into your database activities. Time and cost saving, you can engage this new tool from sending an e-mail for postal orders up to fully capturing this segment as you offer online sales from your own eCellar.

Distributor management

Negotiating the right contract with the right distributor is worth your weight in gold. Do you know if you are getting the commitment your wines deserve from your distributor? Call in someone else if you don't know how to make sure you are. The success of your brand in the retail market depends on the marketing plans your distributor has for their own company as well as for your wine. You can't always rely on the distributor to develop a marketing plan for your brand – look at involving yourself in this area; the benefits are well worth it.

A sales representative starts every week with sales objectives from their company. They have a very busy and often difficult job to sell to retailers, hotels and restaurants. Put yourself in their shoes. What would you sell? First, determine what the customer wants, and then what is easiest to sell, what you know more about, what has the best sales aids. Does your distributor's sales rep have much information on your brand? Do they have the latest tasting notes, press reviews and show

results? Do they have information to show the recommended food accompaniments or the demographics of the consumer most likely to buy your wine? The chances are that no they don't – but the reps of the big groups do. Making your wine easy to sell (and buy) is as important as making good wine. Like all products, making yourself easier to do business with is an integral part of success.

Ask any sales and marketing manager how important analysing sales results is – even looking at them provides a path to success. Do you look at your sales figures from your distributor on a regular basis? Do you know who your best customers are, which restaurants, hotels and retail outlets support your brands or what geographical (not just states!) areas your wine sells well in? Beyond this, do you know what menus and prices your restaurant customers offer? Although this looks daunting (and time consuming) it is an integral part of marketing. Find the time or find a marketing consultant who can do this for you regularly – essentially an experienced person who can edit time and information to keep you updated easily in the areas of importance.

Media liaison

The large wineries have significant resources and influence which they use extremely well as their marketing departments and retained public relations experts put out a near flood of press releases to gain media attention and win reviews from various wine writers. Despite this near 'flood' of press releases there still remains a significant window of opportunity for the SME wineries, especially the ultra-premium and boutique producers to gain editorial coverage. Rather than issuing constant and often trivial press releases, offer the wine writers, specialist magazines and strategically important contacts information that their market is seeking. Think outside the square – be it *The Advertiser*, *Sunday Mail*, *The Australian* or *Financial Review* – don't discount local papers, travel magazines, lifestyle television and radio programs or even tour operators and accommodation providers. The key is to making their lives easier in offering information and offers that their market considers valuable. In addition to improving your brand and sales you are adding value to their function. Alliance networks are well used in many industries, increasingly in 'lifestyle' areas. More often than not they are based on 'human' relationships, a coming together of people who are stakeholders in what is to be achieved. Offering all stakeholders benefits increases the chance of your success. Admittedly, the hardest issues in this area are knowing what to do, having the creativity to 'pull it together' and finding the time to do it! If you can't, consider using someone who can do it with you.

This extends media liaison past mere press releases into the areas of advertising (paid or contra), exclusive client tastings, information dissemination (to those who want and need it!) and the development of a broad alliance network that works for you and with you whilst your product returns benefits to the other partners.

General marketing

A broad, sweeping statement, but as marketing includes so many activities there is a need for such activities as planning both online and offline marketing strategies – be it e-commerce, printed or e-mailed newsletters and relationship activities. Market research, the analysis of what has been done, what is happening and recommendations for future activity are long accepted activities in other industries; why is it so limited in the wine industry? Your brand is your business – developing a marketing plan is how you decide who to sell your wine to, how to sell it, how to communicate the brands offering and how to realise the price you want to sell for. It is this planning that ensures long-run success. Wine lends itself so well to the marketer's efforts – its consumption and collection is an integral part of people's lifestyles whether they know it or not. ▶

For those that don't realise it the message you communicate and where you communicate it is very different to those who warmly embrace the 'wine culture'.

How often do we hear of a winery's plans to export ... only to find the limit of the export planning is to find a distributor? Although a task that is difficult in itself, there is much more to exporting than finding a distributor and meeting legislative requirements. The magic words of 'market research' can identify what the demand is, who the customers are, how to reach them, what distribution channels meet which markets and whether or not the product suits consumer needs. This exercise is undertaken to make the choice of distributor easier and more effective. Again, it is time consuming, so consider using someone outside of your firm; it is even worth asking potential distributors to carry this out. If they want your business let them show you how well they do theirs!

Conclusion

Whilst it is easy to talk and write of the importance of wine marketing, e-commerce and WET tax exemptions, the actual 'nuts and bolts' of wine marketing is rarely discussed beyond such throwaway lines of 'brand-building, distribution and labeling'. These areas offer the marketing practitioner areas for flamboyance – presentations, articles and consulting fees! At the end of the day, marketing results come about from marketing effort – planning is vital but implementation is where results are made. It is this point that becomes 'mission critical' for SME wineries – the activity is needed, but the time is rarely available.

The WET tax and selling direct (either through an eCellar, cellar door or direct mail) offer many opportunities for increased profitability. Using an example of Wine X with a \$9 wholesale price and retail of \$19 may realise the following figures. Selling 2220 bottles of Wine X direct delivers \$42,180 at retail price. This is increased gross profit of over \$20,000 compared with selling wholesale. Add to this the WET tax

equation at wholesale value and the increased margin may represent nearly \$28,000 in increased profitability.

The wine industry has long used the professional services of viticulturalists, winemakers and distributors under contract. This has delivered significant improvements in quality, results and profitability. With time being such a scarce commodity and marketing playing an ever-increasingly important role in results and profitability, the time has come to take the same view as other areas of winemaking. Establishing a full-time marketing department or person is not always cost-effective – why not use a 'contracted marketing consultancy'. Many wineries are finding the benefits of using a 'retained' consultancy that can deliver the services discussed in such a way that maintains the integrity of the brand, delivers results and offers a profitable solution.

NB. The WET tax, its implications and implementation, are still being widely discussed. Whilst the author has offered information in the best intention further advice of a specialised taxation professional should be sought before relying on this information.

References

- Ainscough, T. & Lockett, M. (1996) The Internet for the rest of us: marketing on the World Wide Web. In: Journal of Consumer Marketing, Vol. 13(2), pp.36-47 (accessed as fulltext via <http://www.mcb.co.uk> on 16/4/99).
- AWBC (1998) Exporting Australian Wine, Australian Wine and Brandy Corporation, Magill.
- Barrett, N. & Wilkinson, I. (1985) Export stimulation: a segmentation study of the exporting problems of Australian firms. In: European Journal of Marketing, Vol.19(2), pp.53-72.
- Bartran, P., Phillips, T. and Shipside, S. (1997) E-Commerce: it's a small world after all. In: Director, Vol. 51(3).
- Brown, M. & Henderson, K. (1997) Cyber marketing strategies: how small business can successfully compete in Cyberspace. In: Australia New Zealand Marketing Educators Conference Proceedings, pp.602-603.
- eCellar, 2000. E-Commerce Solutions for Cellar Door Sales, accessed via www.ecellar.com.au, and www.yourwinery.ecellar.com.au.
- Hamill, J. (1997) The Internet and international marketing. In: International Marketing Review, Vol. 14(5), pp.300-323.
- Hooke, H. (2000) The WET tax, accessed via boutiquewines.com.au. Wineplanet, www.wineplanet.com.au, accessed 16/2/2000.

Goodman is an experienced marketer and Internet consultant. He is currently researching the impact of the Internet on the wine industry's value chain as part of his PhD. He can be contacted by e-mail at sgoodman@camtech.net.au or phone 0416 133 236. ■

First Wine Fund's half-year profit

First Wine Fund made a profit in the half-year to December 1999 of \$145,000 before tax.

"The interim result is a good one," said executive director Jon Brett. "First Wine Fund has now started to make core investments. The market will continue to see activity from us as we implement our strategy of providing capital to select companies in the Australian wine industry that offer good prospects for capital growth and that have experienced and competent management,"

FWF acquired a 36% equity interest in Monarch Winemaking Services, a contract winemaking operation. The funds injected by FWF are being used by Monarch to establish an integrated winery complex in the Pokolbin area and for additional working capital.

In a related deal, FWF acquired a 36% equity interest in boutique winery Allanmere. Total investment by First Wine Fund in the two deals will amount to approximately \$1.5 million.

FWF also has an investment of \$600,000 in Winepros Ltd., the international internet portal developed by two of Australia's leading wine commentators, Len Evans and James Halliday.