

AUSTRALIAN WINE BUSINESS®

Where to now for the Australian wine industry?

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It is an interesting time right now. Interesting is a difficult choice of a word to use, but we'll look back at this period and see how we made mistakes, how we could have made things better, what we could have done differently and what would have worked. Hindsight is a wonderful thing – the only trouble is it is too late by then. This article outlines some of the reasons 'Liquid Options' came into being and why it is generating such results so quickly. Hopefully you can pick up a few ideas that help your efforts in the marketplace.

Introduction

The wine industry now finds itself in an incredibly vulnerable position – from the short-sighted approach taken in setting '25-year goals' that were achieved in under three years (why did we think we had done well in achieving those goals?), massive investment that was more encouraged by accounting and taxation than a response to market conditions (one of Australia's leading economic journalists has written that many banks are starting to call in their loans in the same fashion they hit the pastoral sector in the late '80s), a massive growth curve spurred on with great technical innovation but little business development (or even business acumen in many cases), an extraordinarily undervalued currency (which made exporting relatively easy) and now a massive shift in the competitive power of the trade sales channels. That's not to mention contracting global wine consumption (1997-2000 down 0.4% – Wine Industry Directory, 2000 and 2002) and a 23% oversupply of production on a global scale in 2000 (WID, 2002). By the time the next data become available many doors will be closed because we couldn't see the temperature of the climate we were trying to live.

Many wineries are already starting to see the impact on sales of an appreciating currency. In less than one vintage our currency has appreciated by \$0.065 – not much, you say, but that is a price increase on your wine in the vicinity of 13%. Rising prices in a market that has no problems meeting supply makes for tough going, especially when movement of product, cashflow and total revenues drives the larger groups. The lack of business acumen often seen in the industry has resulted in very very few players actually planning for this rise by hedging currency, quoting in \$US or Euros or even simply lifting prices when the \$AU depreciated. So, many wineries are starting to look at how they can increase their domestic sales – rather than having all their growth (and, increasingly, survival) eggs in one basket.

This is where the trouble is. The industry has grown so quickly (and so easily) that the supporting infrastructure in the domestic market has not kept pace. Simply, we haven't learned to sell. Most other industries don't go through such rapid and easy-gain growth. They have to learn how to manage sales,



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how to sell – it is a business phase the wine 'industry' has not gone through; it jumped from the production-to-product-to-marketing concept without ever really losing the production mentality or developing the infrastructure of the 'sales' concept of business operations. How many of our 'wine business' graduates have learned anything about the actual selling process or sales management? (UniSA School of Marketing does actually offer several sales, selling and sales management courses, which offer significant benefit).

What does that mean to the grower, winery and distributor?

In the first instance the wine 'industry' needs to recognise what industry it is actually in. The notion of a wine 'industry' is a very segmented notion – once the effort reaches the distributor it is in the retail sector, not the wine industry, not just the beverage sector, but the retail industry. Recognising this in itself will deliver benefits in the approach taken. Large retailers derive significant income and cost reductions through avenues that do not even relate to the selling of goods to consumers. Large multi-nationals pay significant sums of money to ensure their products are carried by every store in a chain – even more, to make sure the space is prominent. Advertising departments of many retailers actually generate a profit as they charge suppliers for space above what the cost of the total advertisement is.

Do consumers decide what to buy? By and large, we, as consumers, buy what the retailers want us to buy. We buy the things that are at eye level, in big theme-oriented displays, things that represent cash-flow and profit to the retailer. They have significant power over suppliers and consumers. With the shake-ups taking place in the retail liquor sector, how long will it be before the boards of the owners look at their 'wine business assets' and start asking how they can make bigger returns. On the sale of shelf space, on the sale of advertising, that's not even looking at volume discounts, give-aways or the cost to have your product actually ranged in the first place. Why should the retailer pay the cost to examine your product and reconfigure their system to add your wine in? If I sat on the board of Woolworths or Coles I'd be asking why we give the shelf space away – and why do we have to pay staff wages to move stock, replenish fridges and floor displays – when some suppliers are willing to provide this as a service?

It also means we, as an 'industry', need to adopt a selling concept and build the infrastructure necessary to sustain sales

in the domestic market without slashing profitability through simply adopting a 'buy a case and get a case free' approach that is currently becoming a little too commonplace. Only the largest producers can do that in the medium or long term. We need to have staff conversant in the selling skills necessary to achieve our objectives. Wine knowledge is wonderful – but the consumers have that and some retailers even better. Why do we need to tell someone we know wine better than they do? We need to examine other industries to see how they sell. Start with the breweries and the spirit groups. They have been using their skills in this area for some time and experiencing significant total global market growth for the past decade – whilst the total global wine market has remained, by and large, very (very) low single digit growth. They are selling into your share of the total retail \$ spend on beverages. That is without even looking at the water and soft-drink industries – these are a second sector to look at.

What problems does that pose

The problems it poses are many. Ask anyone who has worked in the sales environment! From managing a sales team to managing territories to actually having to cope with the relentless pressure of achieving results every minute of every working day in order to keep moving forward. That is why the selling profession is the highest paid profession in the world. But, our wine sales people aren't. I've seen many cases over the past years of 'area managers' not even being called 'sales representatives' let alone having an accountable territory to manage, with specific weekly targets. Fancy getting \$50,000, a company car and then getting to work unsupervised with no commission or incentive scheme.

We have people who are among the best in the world when it comes to using their wine knowledge to work with wine. Worse still is the structure and responsibilities held by the various channel members. They conflict. Most distributors sit

somewhere around 25-30% slice of the wholesale price (plus an advertising and promotion slice of a further 5%). For this they are expected to manage the freight, logistics, warehousing, distribution, credit risk and recovery not to mention the actual sales effort. There simply are not enough hours in the day with the current industry structure. Take this conservative example:

A distributor has 15 principals who each have six wines. This gives each 'area manager' (soon to be 'sales representative') 90 wines to sell. The AM has a 30-minute opportunity every two weeks (often every four weeks) to see a trade customer. This assumes he or she has a territory that is being given a well-managed call cycle – rather than his or her favourite 30 customers. So, every two weeks he or she has 30 minutes to:

- build rapport
- examine the customers' needs
- position their suggestions
- close a sale.

And, in this time, he or she has 90 wines to think about! Chances are the wines are sold with the specials attached, the ones the trade customer already stocks or the ones they ask for (i.e., order taking). The easy sale has to be the most taken route.

As you can see from this example (which in many cases is even worse) it is not the fault of the distributor or the area manager (hopefully, soon to be called 'sales representative'). It is a physical impossibility to represent or, better yet, sell effectively in this scenario. The tax rate on the end product doesn't help by any means – at the levels they are, the price is already pushed almost past the point the consumer actually wants to pay. Most costs are hard to lower – bottling alone in Australia is extremely high, as is the cost of picking and pruning (which will go higher now that Centrelink has started raiding vineyards looking for 'double-dippers').

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Where do we go from here...

The wine 'industry's' position now leaves a few doors open:

- (i) Restructure ownership of wineries and vineyards. This will no doubt happen – especially when the beneficiaries of 'scale economies' can keep producing wines at significant cost advantages – e.g., buy 1 get 1. This in itself will force somewhat of a rationalisation.
- (ii) Closure of some production. This, too, will no doubt happen as the banks and finance companies ask borrowers to reduce their total debt – i.e., calling in their loans for money that they so easily 'gave' away
- (iii) Reduction in the risks taken. Fruit will increasingly be left on the vines by small and mid size wineries that are unable to sell their bottled production. Why make what you can't sell. This in itself is pure logic. The cost of bottling is significant so small and mid-sized wineries cannot sit on much in the way of inventory. The margins aren't that good.
- (iv) Change the structure of the supply chain to the market. The supply chain itself is a reason for some of the problem. Whilst many of the larger groups are driven with a fiercely competitive sales orientation, that remaining 85% of producers compete for the same 5% of the remaining 15% of the market. Given the example discussed above, this is a difficult but necessary step.

Now is the time for the 'wine industry' to recognise the world we live in. The initial growth spurt is over and it is now time to work for results. This entails a significant mind-shift in the way business is done, before some of these outcomes manifest. What value do the steps in our supply chain add for the related increases on the end price?

Changing the structure of the supply chain

Wineries have taken to the bare essentials of the marketing concept – at least in aesthetic terms. Wine labels look better, tasting notes are good, merchandise carries the branding and the colours all conform to the position in the market. Newsletters are looking better as people are making the 'time' to write and produce them. Mailing lists, in some cases, are even starting to divulge knowledge as records are being kept (in a recoverable form) of what wines people buy, their preferences, birthdays, etc.).

It is now time, though, to make improvements in the selling area of our business. This takes time – it involves a change in organisation management belief and values before the idea even gains momentum. From there, it is still a long road of planning, change and recruitment. In the face of all this sits the fact that the example shown above is all a distributor can afford to do in their business. It needs another option. It is not a case of choosing another distributor – the problems are endemic due to the structure, culture, margins and responsibilities of the sector. Broadly, it is time for an approach that:

1. Has more emphasis on 'brand coordination'.
2. Has more emphasis on selling.
3. Has more emphasis on the underlying success factors of the retail industry.
4. Provide incentives for the sales efforts.
5. Properly manages the sales function, not the wine knowledge.
6. Has responsibility for fewer brands – and much more result per brand.
7. Takes the marketing objectives and message to the marketplace, rather than letting it stop at the front gate.
8. Works the full range of wines that represent commercial viability to the winery not just the one or two that are 'easy sellers'.

We need to tell the trade 'where this wine fits, who its target market is and how we've seen it sell well'... we need to take responsibility for providing a service to our customers, stocking the retailers' shelves, assisting them in their job of

selling our wine brands. We can use proven retail techniques to combat the threat posed from the beer and spirits industries to provide our ever-increasingly powerful customers something that makes them more profitable. With a global wine market that is shrinking (1997-2000 down 0.4%) we need to take our other beverage competitors seriously. We can learn by their techniques and the techniques of other retail-based industries. A recent visit to the new Quaffers store in South Australia shows how 'wine' as a product is going to be affected in the coming years. With a storeroom bigger than many distributors and a consumer-oriented approach, wine is just a drink. Just a drink with ever-increasing pressure on margins – how can you add value or streamline the margins?

Next time you go into a supermarket, look how many people have a little red 'visitor' sticker on. They are making the supermarket and the brand owners more money. It is not half as sexy or interesting as talking about wine – but then if you get into the selling adrenalin rush of success, results and incentives it is one of the sexiest things going! Keep an eye out for brand coordinators working for wine brands, in conjunction with distributors to support and maximise the results from the larger sales effort by providing a service to the retail customer as they influence what the customer that walks into the shop actually parts with money to take home and drink.

Goodman is an experienced consultant in the areas of marketing, management and sales. He is completing a PhD in Marketing Strategy at the Adelaide Graduate School of Business (Adelaide University) and lectures at the School of Marketing at the University of South Australia in the Master of Marketing Program. He is involved in wine marketing consulting as well as the provision of the Liquid Options sales support and merchandising service. He can be contacted on mobile 0416 133 236 or e-mail: steve@liquidoptions.com.au ■

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