

# WINE MARKETING

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## Integrated channel strategy for SME wineries

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This article introduces the 'two over marketing<sup>®</sup>', concept. A simple and effective strategy, this concept offers the SME winery an effective approach to build its wine brand without reliance on large marketing budgets. Most importantly, this approach is designed to increase both trade and cellar door sales without compromising either channel.

One of the dilemmas facing the small-to-medium (SME) winery is that of building cellar door sales (including mail order and Internet) without compromising the distributor's efforts to sell into retail and on-premise locations. For the SME winery, cellar door sales give the profit margins necessary to sustain production on the scale usually involved – the 29% WET tax rebate offers the opportunity (in addition to higher sales margins) for the SME winery to grow profits. The distributor, on the other hand, is most likely to be responsible for selling 85-95% (99% in many cases) of production, building the brand in the marketplace and holding the risk for debt collection. As such, their role is vital in ensuring the SME winery has the regular cash flow needed to run its operations.

Wine retailers work on very slim margins but are responsible for the final sale to the consumer in most instances. Offering a discount to cellar door customers may stimulate additional sales at the cellar door – but will most likely lead to a drop in retail sales, which may significantly effect the cash-flow of the winery. How can this situation be balanced to optimise the results?

### Recognising the problem

The first step in the balancing act is to recognise the problem. Most commonly referred to as 'channel conflict', this is a situation encountered widely throughout most industries, but especially prevalent in the SME winery segment of the



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wine industry. Retailers are unable to compete on price with the cellar door, so selling at a significant price discount is bound to lead to channel conflict – the retailer will not buy-in a product he knows he cannot compete with. The distributor is sure to lessen the effort to build the brand and carry out day-to-day sales activities knowing he (and final trade customers) can't compete with cellar door prices.

The brand is damaged in the marketplace, it is no longer readily available, channel members will have stopped supporting it and the public most likely remembers it as a 'discount brand' – hardly a situation for sustainable success! So, why do so many SME wineries persist with competing on price at cellar door versus the retail sales of their own product? Usually because they don't realise where their competition comes from.

### What are you competing against?

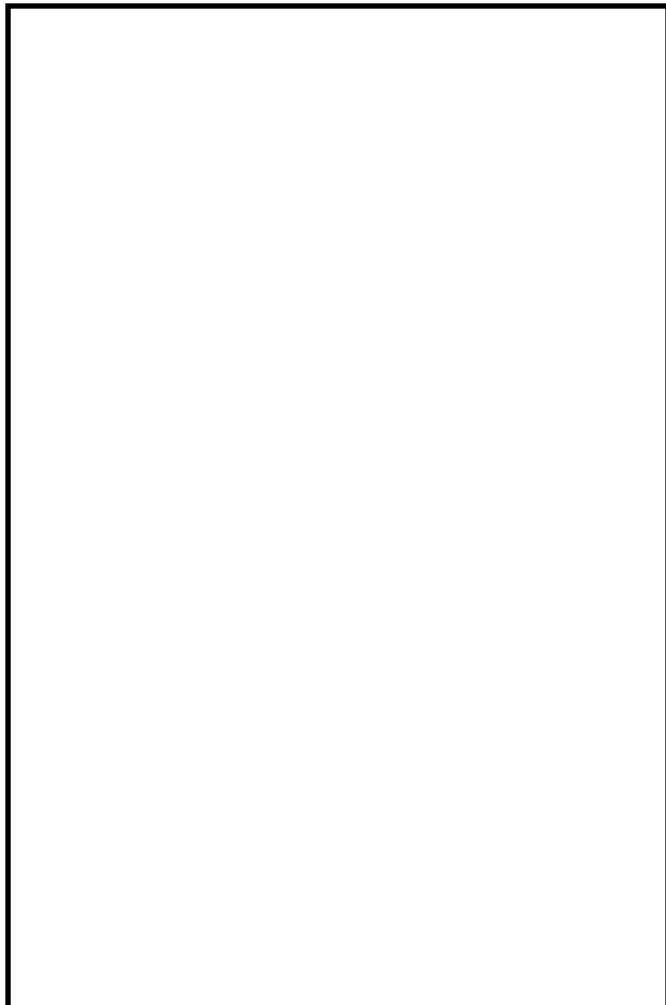
The cellar door is a channel of the product's distribution chain. So, too, is the retailer and on-premise business – each has different characteristics, can perform different tasks necessary to build and maintain the brand and ultimately services different market segments with different buying patterns. Rather than trying to compete with other channels, each channel needs to be viewed as a stakeholder in the success of the other channels. It's all about integration, not competition, when it comes to channel management. Competition is what you engage in with other members of the

wine industry, in a broad order (depending on specific situations) of:

1. New World versus Old World
2. Country of origin
3. State of origin
4. Zone
5. Region
6. Sub-region
7. Other wineries

Across each of these competitive areas you then have a common thread of large wine company versus independently-owned wineries, label producers and estate wines. If a small sub-region has two or three super and ultra-premium producers, they are much better served in the short and medium time frames if they cooperate and market together, leveraging off each other's exposure. In this situation, it is not the winery next door that is the threat – it is the numerous other sub-regions.

The Barossa Valley did not achieve its brand status without a cooperative marketing effort to differentiate itself from other regions. A growth strategy for individual wineries in the Barossa has now shifted to differentiating themselves from other wineries in the region. Using the Barossa Valley as an example highlights how this highly-developed brand has still not yet reached the stage of a winery competing against its own channels. With so many levels of competition and so much to be done to differentiate from the various elements of competition, why engage a marketing and management strategy that wastes resources and opportunities competing against yourself in a cellar door versus retail battle that no-one can win in the long run?



## Integrating activity

Although time consuming, integrating your marketing and management activity amongst the different channels is vital to ensuring long-term success. Too many distribution contracts are drawn up with scant regard paid to the actual implementation of activity, effort and brand positioning. This wastes one of the best opportunities to achieve objectives – it is often left to chance as to whether or not a wine takes off.

One of the first steps in the integration of strategy among the distribution channels is to prepare a marketing plan. Too often this becomes a document written to impress those reading it rather than one designed to allow the stakeholders in its success to easily understand where it fits, how the strategy will roll out and what they need to do as their commitment to the brand. Many successful marketing plans have taken an approach that outlines the strategy and activities necessary for achieving the desired objectives.

Importantly in this marketing plan is the need to clearly spell out the position the brand will occupy in the marketplace – what types of consumers will buy the wine, for what reasons and where they will most likely purchase? The consumer is the most important part of brand building, sales and wine marketing (not to forget the reason wine is even produced in the first place!). Identify how each channel member needs to communicate the positioning message to these targeted consumers. In addition to having a common message, you have the benefit of providing channel members with a 'framework' for working with your brand. How many retailers and distributors actually work through identifying frameworks for each individual brand unless you provide them with one? You are ahead already.

Work through the issues involved in getting the message communicated to the targeted consumer segments – it is vital to consider what you may have to do in order to get someone to adopt the behaviour you need in order for your brand to be successful. Identify the members of your distribution channel and analyse what each offers to the 'typical consumer' for your wine. If you have a new brand then on-premise members present a fantastic opportunity by selling your brand by the glass. People, by and large, do not like risk – why pay \$20 for a bottle of wine you know nothing about – let alone \$240 for a case of unknown wine – but offer most wine consumers the chance at \$6 for a glass of something unknown and suddenly the behaviour changes; they try something new and unknown with very little risk.

When you have a new wine or even new vintage to roll out then tell the customers on your cellar door database which restaurants have it by the glass – more importantly, tell the distributor to tell the on-premise accounts that you will be sending them customers. On-premise accounts are much more likely to stock your wine if they know you are putting in marketing effort to bring them customers. Remember that your wine is not sold until the consumer has paid for it – sitting in a retail store is not sold just because the distributor has paid you for it. As the 'owner' of the brand your success in the long run relies on end consumers parting with money for your wine – so why not put a bit of effort into driving consumers to retail locations?

If your distributor can't (more like won't!) then consider doing it yourself – send a flyer out with the distributor's statements or even send an email to their customers giving the DISTRIBUTORS contact details. Don't be tempted to compete with your distributor – once they see how effective this is they'll be more inclined to do it themselves. Consider what else you can do to promote the places that stock your wine – perhaps a 'restaurant of the month' on your web site. At least have all the places stocking your wine listed on your site. If you send out a newsletter (if you don't, you should be!) make mention of any promotions that are taking place in retail or on-premise locations – make sure your distributor actively plans and informs you as to what is upcoming. Again, let the trade customers know you are generating demand for them.

When someone rings the cellar door with a query on the wine perhaps consider asking them where they are and offering the details of the closest on-premise or retail location they can try the wine. Obviously, you can't pass on that you've done this each time, but let it become part of how you do business and let the other channel members know how you do business.

### **By the glass to a whole case?**

Every glass of wine sold on-premise should be viewed as necessary for long-term success. If you've managed to influence a wine consumer's behavioural pattern to buy an unknown wine by the glass it becomes quite plausible to bring this to a cellar door sale in the medium to long run. If the consumer likes the wine they are likely to buy a bottle next time they're in their local retail outlet – if the retailer is aware of your communication position and brand image they are likely to offer a few words about the wine as the sale is transacting. This further enhances the likelihood of brand adoption.

The consumer gets the wine home (or wherever it is being consumed) and they read the label. If the label is written in cooperation with the positioning strategy it may offer the consumer the opportunity to engage in a relationship with the winery – perhaps an invitation to drop a line, visit the web site or email for further information. Given the pivotal role the label can play in maximising brand leverage, why do so many wineries simply change the year of vintage each year? Yes, a lot of information can stay the same – but how similar is the wine vintage after vintage?

Giving the back label an opportunity to commence a relationship is essential in conversion to cellar door sales. A visit to a web site, emailing to join a wine list or even a visit to the cellar door moves closer to selling by the case from cellar door. Imagine the consumer that likes your current vintage purchased from retail finding out that for your cellar door community you provide access to back vintages, limited production wines and full tasting notes, recipes and food matching suggestions. Don't expect a purchase in the first couple of contacts – remember it's a relationship, keep in contact, make it interesting, make the customer feel special and you will move towards the case (or two) order from cellar door. Utopia may even see you, the SME winery, moving past this into pre-ordering future vintages, especially if your wine is produced in limited quantities.

Oversimplified as this process may be, it is not a quantum leap. What is required is to have a look through the eyes of the wine consumer. It is often very difficult for the SME winery as

the owners are likely to be the winemakers, growers and marketing personnel, making them too close to the product to make objective assumptions about how others perceive your wine and what behavioural traits they are likely to exhibit.

### **Avoiding conflict with channel members**

The temptation with converting the 'by-the-glass' consumer to bottle purchaser to cellar door customer is the temptation to maximise profits by increasing the purchase share of these customers (i.e., selling all of your brand to them via cellar door). As much as this may bring short-term cash flow it is brand suicide in the long run. Instead, view each channel member's role and what it can provide.

Getting things right before you start is likely to influence the results (better) and conflict (less). Identify in your marketing plan that you are going to undertake activities such as those discussed above, negotiate with your distributor what you need them to do – and what they need to communicate to the trade. Send trade customers a note outlining how you intend to support them with building demand for your product at their location. Many won't read it but those that do will most likely support your wine and the brand you are trying to build.

Make sure you let each and every channel member know what you are doing. It is one thing to do something, another to reap the benefits from telling those who it affects. If retailers, on-premise and distributors know you use your web site to generate demand and steer foot traffic through their section of the distribution chain they are not as likely to become offended at your selling wine on the site. This doesn't mean discounting the brand to beat other channel members. Remember that price discounting is the cry of the lazy sales manager. The web site and cellar door can offer ways to access back vintages, hard-to-get product lines as well as generally building the relationship between the wine and the market. Better relationships in this area mean better support for your wine in retail and on-premise channels.

Cooperation (a more palatable, legal and ethical form of collusion) can achieve great things. As an SME winery, it is most likely you need to rely on other members of the distribution channel. Communication is the key to cooperation. Let everyone know where they stand, what is in it for them as a stakeholder and what you expect in return. Cooperation is the only way you'll sustain your operations in the long run, as well as making things just a little bit easier each year. A tight distribution chain formed through cooperation, mutual benefit and a stakeholder concept is more likely to weather the inevitable market slumps whilst also maximising the peaks. ►

## Conclusion

Call this channel management, integrated marketing or any other name. What is important is that this approach works. The best way to come to terms with the objectives of this approach is to use the term “*two over marketing*”. Rather than marketing to the person you intend making a sale with, you are in essence going to their customer. Drop retailers and on-premise a line and you build the relationship (and result) with your distributor. Market to the on-premise or retailer’s customers (referring them, of course, to the restaurant or retail outlet, not just cellar door) and you build the support for your brand amongst this segment of the distribution chain. It’s all about making other people’s lives easier. Make the distributor’s life easier and they’ll support you; make the on-premise customer’s life easier and they’ll support you. As time consuming as this may all sound, remember to look at the wonderful facilities new technology offers. Email is cheap and instant, databases can allow you to send one message to all on-premise customers and retailers in about five minutes. Yes, this means the winery has to do some work – but if you wanted the easy life you wouldn’t be running an SME winery would you! Besides this, it’s all about systems and once a system is set up and channel members become accustomed to working with it (including consumers), the system can pretty much run itself. It’s all about replication, not reinventing the wheel. Don’t reinvent the wheel to beat your channel members. Use it to increase the success of all your brands’ stakeholders. This, naturally, includes all those who stock, sell, drink and produce your wine.

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