

MENTOR REPORT -MARCH 2010

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BUSINESS MANAGEMENT AND MARKETING

Introduction

I have noted a number of points below which reflect my thoughts following my visits in March. The first few represent reflections on broader strategic or cultural issues whilst the second section relate to elements of the sales & marketing mix. In summary they are as follows:

- : Managing Supply & Demand ...Maximising Scarcity Value.
- : Determining the end game...and the implications on marketing strategy.
- : The Importance of Personality....and of being true to oneself.
- : Determining the Correct Price...and building from there.
- : The Need for Table Wine “Heroes”.
- : Branding & Presentation.
- : Developing a Database and Realising its Potential.
- : Developing an appropriate Route to Market

This does not represent a comprehensive report. I've tried to focus on softer issues the importance of which can sometimes be underestimated whilst the options for each producer in terms of the marketing mix are too numerous to mention them all..

Finally there are of course no examples given as my reports to each producer are confidential but I should also note that it should not be assumed that where I appear critical this was because of any failings in the particular producers I have visited.

1. Strategic\Cultural Thoughts

➤ Managing Supply & Demand

Currently the English Wine Industry is in a pretty good place in at least two key respects: demand exceeds supply and the average price per bottle is significantly above the UK market average. However supply is building fast and if the industry is going to achieve a satisfactory return on investment then, amongst other things, it is paramount that

demand continues to outpace supply (which provides the best chance for prices remaining high).

As a generalisation all English wine currently is on allocation...it therefore has a scarcity value. Consumers are prepared, consciously or subconsciously, to pay the prices charged in part because it is in short supply (and in part obviously because they like the product\brand). This is a real positive. And the mind set of producers is all about managing the allocation process appropriately. This implies in effect balancing the need not to irritate customers with the desire to maximise the scarcity value.

As supply builds, particularly if availability increases significantly over a short period, there will be pressure on producers to change their mentality. At worst this could mean that producers start chasing sales...even discounting. This would be a fatal mistake as the scarcity value would disappear very quickly and once lost it is very difficult, if not impossible to recapture.

The ideal approach is to have developed a framework which can absorb increases in supply ...both in terms of trade and consumer distribution, so that as supply builds one is simply allocating to a larger customer base. In terms of mind set this implies it is all about holding ones nerve! It is about perpetuating a perception of scarcity throughout ones sales and marketing activity even if (temporarily or permanently) the scarcity does not exist in reality. This could imply for example always offering customers less than they ask for or encouraging consumers to order pre release to ensure they manage to get an allocation..

This is obviously not easy particularly if cash flow becomes a real issue and also if one is delegating ones sales\distribution drive to third parties who are likely to become aware of the true situation .Crucially though one must never underestimate or take for granted the scarcity value that exists now. It is very precious.

➤ Having the end goal in sight.

A. What is evident is that every producer has a different goal and therefore a different vision and strategy, as one would expect. However it is possible to separate, broadly, those producers who intend to expand volume to a certain point and then stop from those who have set no upper limit on their sales. Neither approach is right or wrong but each requires a different mindset and strategy.

If a producer has the desire to reach a certain volume and stick then, depending of course on the volume level, this will make it easier to maximise the scarcity value and thereby keep the price high. It also might mean that one only needs to consider distributing locally and/or direct to consumers which implies greater control over the selling process\message and potentially higher margins (through lower selling costs).

If a producer on the other hand has set no limit on growth the opposite applies. The scarcity value becomes more difficult to retain whilst sales and distribution growth needs to be very carefully planned. Local sales and

marketing will become less important in the mix and great care must be taken that third parties involved in selling (and marketing, particularly if one is exporting) are bang on message. Related to this the branding\marketing needs to work harder as the relationship with the purchaser will not be so personal. Finally the level of control which the current management team have over the day to day business processes will inevitably diminish as the need to delegate increases...which may or may not be an issue!

Clearly implied in the above is the wisdom of making an early decision as to which group one falls into. For example should a producer decide to stop at a reasonably low volume but then after 3\5 years changes their mind this will necessitate a radical rethink of the sales & marketing framework and mindset (not to mention more fundamental financial planning issues). If on the other hand a producer following an unlimited growth strategy decided to peak at a certain point the ramifications might be relatively insignificant.

B. When a brand is launched the way one sets out one's stall, in terms of the branding, the presentation, the pricing, the approach to the promotional programme and the route to market strategy, must reflect the end game and the route you want to take to get there. Producers will be living with the consequences of these early decisions for a long time.

Producers should take appropriate time therefore to think it all through and remember that not only are all elements of the mix inextricably linked but that the proposition is only as strong as its weakest element. There is little more frustrating for example than seeing an award winning wine let down by a poor presentation or a brand with a strong personality failing to communicate itself to the target audience or being poorly or inappropriately distributed or priced..

➤ The importance of personality.

All UK producers are small by global wine industry standards and this represents a major advantage in marketing terms. In the wine business (particularly in the premium wine business).small is beautiful. Linked with this there is no more powerful selling tool than the brand owner\winemaker or family .Added to this English Wine has an obvious competitive advantage over all imported wine in that not only does its localness add value but it is quite reasonable to assume that the brand owner can meet (and therefore influence) a significant number of the target market.

This competitive advantage should ideally be maximised yet inevitably some producers are more comfortable being "front people" than others .Indeed some are more comfortable in the marketing & sales area than others.

Going forward this implies there are two balancing acts for producers:

- a. They need to balance the advantage gained by being out in front ...as the personification of their brand...against the need to be true to themselves. It can sometimes be obvious when the look & feel of a brand, or the way its marketed, doesn't sit comfortably with the producer. In such instances producers in my view should come down on the side of being true to themselves (in part because only this route brings true satisfaction).
- b. They need to balance the inevitable need to delegate as supply\sales build with the need to retain control of the "message ". In broad terms this implies keeping the image " small\niche " even if volumes become relatively large and spread across many channels or even countries .

2. The Sales & Marketing Mix:

PRICING & RANGE

The correct price, it stands to reason, is the price a customer is prepared to pay. And this price of course reflects far more than the product itself. It could well reflect the fact that the brand is local\English and\or the fact that the purchaser has met the producer as well of course on the attractiveness of the branding\presentation, the appeal of the communications and the skill of the selling effort. As noted above too, it could well reflect on a perceived scarcity value .Finally, price itself can add value...consumers find some brands too cheap!

Given the above it stands to reason that if all ones effort is devoted to the winemaking & the viticultural side then one is not coming remotely close to optimising ones price.

Importantly too no consumer or customer decides whether a price is appropriate in isolation. Currently all English Wine is positioned at a premium level which is good news for each producer when comparisons are made within English Wine. When of course comparisons are made with wine in general then things get more complicated.

To many English Wine appears expensive but this does not imply that it should be cheaper (even if the cost structure would allow it to be).Certainly on the sparkling wine front the increasing number of plaudits implies any criticism is decreasing whilst the price positioning adds value in itself ...particularly in such an overtly branded category as Champagne\Sparkling wine where having the correct image is crucial and consumers are less concerned about the makeup of the wine itself. As supply builds in my view effort should be placed behind supporting the premium price through ongoing development of quality, range and communication skills, and broadening distribution...anything other than on considering reducing the price.

On the table wine front where the added value is currently less obvious and the competition more complex my position is less clear cut. In this sector I think there needs to be greater focus on wine styles which can more easily justify an above £10 retail...a price point which represents a real statement of intent. In

other words wines which have an inherent point of difference. From that hook other styles, which are perhaps needed to help with cash flow etc, can hang as required but the marketing effort would be on the more premiums.

The table wine sector needs a few “heroes “ and ideally these heroes should not all be the same variety. The objective should be for the UK as a whole to have a diverse range of premium table wines, many of which (as now) should be non varietally specific (at least on the front label). Diversity should be encouraged .There might be short term advantages of focussing on one or two varietals but longer term diversity of individual brand (i.e. producer) propositions is likely to make it easier to continue premium pricing. First of all it reduces the dangers of oversupply (by spreading the varietal load) and secondly it will encourage individual producers to develop their own personality which should be more rewarding both individually and generically..

There will still be (as now)many who will argue that in table wine better value can be found in many other parts of the market but not only is there always better value somewhere (whatever the wine!) but this implies too that a wine is only purchased for the liquid. Providing that a wine meets certain basic quality standards then ,especially if it is an unusual variety or a blend (which reduces the competitive set) , it will be purchased (or rejected) on the basis of how it scores on many other points (as noted above) .

After all, how does one compare the price of a Burgundy say with a Rhone, Bordeaux or Loire wine? In the end the price commanded is as much a product of history or long term marketing as of “quality” (as defined by experts) and a purchaser will be satisfied or not more because of their particular taste preference and their level of desire for the particular wine (or appellation) which will not simply reflect some experts opinion on the wine.

BRANDING, PRESENTATION and COMMUNICATION.

The key to successful branding is not simply to come up with a name and a pack that sounds and looks premium .As noted above producers must feel totally comfortable that the brand reflects their personality and aspirations.

Equally importantly successful branding is about telling stories .and stories which are not simply about the provenance of the wines. They could be stories about the producer (the history\the vision) or about the land (something historical or something quirky). Such stories may be reflected in sub brand names or they may simply be used to add personality to the packaging (perhaps through a neck tag ...but certainly through a back label) or to the web site\blog.

Producers should not be concerned about relating stories or developing a personality which is not directly all about the wine or the vineyards. Consumers like to be entertained: wine is an emotional not a rational purchase. It's a treat not a necessity.

Finally ones brand can be provocative and quirky. The less one has to sell the more one can break the rules because low volumes imply more reliance on local sales and the personal touch. However if you are likely to need national or international distribution then you probably need to play more by the rules given it will be more difficult to personalise the selling effort (unless of course you engage effectively with consumers on line) .

However as a general rule producers should not be afraid of producing “ marmite “ wines\brands. Better to have a situation where 10% of wine consumers are passionately supportive of you and 90% have a deep antipathy than a situation where 100% hardly notice you in the wall of wine!

BUILDING A CONSUMER DATABASE and REALISING ITS POTENTIAL

Producers should take every opportunity of capturing consumer names and then spend an appropriate amount of time developing their loyalty .It costs apparently 9 times more to gain a new customer as against keeping an existing one. Whether names are captured at the cellar door, through on line marketing or direct mail, through the local media, through tastings and events ,or simply through the back label or neck tag ,doesn't matter. The key is that every avenue is used to encourage them to engage with your particular brand.

Then you must keep them active. Consumers have many demands on their time and closer to home the competition from other English wineries will increase significantly. The data base will need managing. Firstly you need ideally a process that segments it by say purchase pattern, sales value and level of interest. Secondly, realising the full potential of your consumer base is not easy. It requires day to day commitment and importantly your approach and level enthusiasm should be consistent .If for example you start a blog then you should keep going as you will have raised expectations; better not to start at all if your heart's not really in it.

Currently the level of on line sales is low but a website must be a key element of your communication mix. It must do justice to the producer and the brand ...its look and feel must be premium, it must be easily navigable and the tone should reflect the personality of the brand (N.B. its fine to be quirky: it doesn't need to be over serious) Whether or not a producer uses social media in addition depends (as with blogging) on whether this is within their comfort zone. Interacting with consumers will however be increasingly important (particularly if your competitors are) and ,as the American social media gurus say, social media make it less difficult to turn prospective purchasers not just into regular purchasers but into “ evangelists “ !

Finally,a database is also a research tool. One can use it to get feedback on the wines, on packaging on ones trade customers...and the more interactive the relationship the more useful the feedback.

ROUTE TO MARKET

The choice of route to market depends fundamentally on a producer's volume aspirations .The greater the volume the more options a producer should be seeding .Given the objective of retaining ones scarcity value the key is to keep all distribution points (and the consumer) "hungry for more" ...as noted above. Ideally trade customers, particularly large ones, should come to you (following awards or at wine fairs) rather than you go to them; this allows you more control of the negotiation.

Whilst taking this into account my message would be ...keep it as simple as possible. If cellar door sales and the locality can likely absorb your increasing volume then why expand outside? The cost of sales will increase and you will lose direct control of your message.

Finally if you are not yet on the market or selling locally currently but aware you will need to expand in a year or so then use every minute of planning time available. Find out who the best distributors are, talk to them, meet the supermarket and direct to consumer retailers buyers ...discover firsthand how the market works and where you feel comfortable. Producers must have empathy with those distributing their wines, which will better ensure they are on message. Its not simply about the least expensive option .

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