

## **WINE SKILLS BUSINESS MANAGEMENT & MARKETING MENTORING REPORT**

**FEBRUARY 2012**

### **INTRODUCTION**

Having just completed another round of visits I've decided to add further comment to my previous reports on the '*Route to Market*' section. That is because I see 2012 as a critical year in this regard. Not only are distributors looking more actively for English Wines to represent than ever before but producers will live for some time with the decisions they make in terms of both appointing distributors and setting prices.

### **ROUTE TO MARKET**

Until fairly recently much of the UK wholesale (and retail) trade lacked real interest in English Wines, their priorities and focus were elsewhere. The position has now changed radically. This is not to say that listing English wines has become a core requirement; it will never be that except perhaps for certain local wine merchants, but there is a clear realisation that not having English wines on the list at one level represents a missed opportunity and on another an increasingly obvious "gap" in the portfolio. The fact that 2012 will see an upsurge in national pride is already adding impetus to this development. By the end of the year therefore it will be surprising to find a wholesaler (or indeed retailer) who isn't listing English wine.

This raises certain questions:

1. How will the UK trade's range develop over time?
2. Should producers feel more comfortable with a distributor who has a broader range of English Wine or should they seek to be exclusive?
3. How will the relationship between distributors and producers change as supply builds and the options for a wholesaler broaden?
4. How can producers take maximum advantage of the current situation where demand exceeds supply?

As noted in my previous report (September 2011) it's crucial that producers develop a clear route to market strategy. For producers who will at some point need to sell away from the cellar door and a few outlets locally, then a key decision will be how to develop a relationship with one or more third parties in the UK (and perhaps abroad) to sell on their behalf. In that report I looked at the sensitivities to be considered when developing relationships and how at some point it will be necessary to choose between either supplying local outlets direct and going through a distributor or between a local and national distributor.

As in all things the ability to get one's own way is dependent ultimately on one's bargaining power. Currently all those producers with wine (notably, but not exclusively, sparkling wine) have power. In addition to the plaudits for quality there is a scarcity and a novelty value. This allows English producers, in the way they negotiate with customers and potential distributors, to be tougher than their imported counterparts can be. This allows them to break the rules and (in a nice way!) ignore, to an extent, the sensitivities noted in my previous report. This position will change, inexorably, as supply builds and there are some examples of this already happening.

How quickly it happens depends not just on supply but how the UK trade (wholesalers and retailers ) decide to expand their range .In say 3 years' time how many sparkling wines will a retailer ( in the off trade or in the hotel\restaurant\pub sector ) have on their list ? Will it be like Champagne or more like Prosecco or Cava? The same question is relevant for still wines; will the range look more like Chile, with just a few producers tending to be listed, or like France or Italy? And these decisions are crucial because what retailers decide (or can be persuaded to decide) will determine the list of wholesalers\distributors.

My view is that given English Wine ( for the foreseeable future ) will not be perceived as a regional proposition ( such as France or Italy ) but as a national proposition ( like Chile ,Argentina or Germany ) then the decision on the breadth of the range will come down to the strength of (and points of difference between ) individual producer brands.

The likelihood is therefore that retailers will want on their list at that time perhaps 3\4 sparkling brands (and not all priced the same) and perhaps 5\6 still wines and most of the latter will be local. Whilst this scenario will represent a significant step forward to where we are now it still implies that by say 2016 a "bottleneck "will have developed which will have particular relevance to those producers who need to sell nationally as opposed to just locally

Coupled with this (and equally importantly) a bottleneck will develop in the wholesale trade. There are not that many good wholesalers when it comes to those offering national or even semi national coverage and it's probably the case that many ( if not all ) already now have agreements ( formal or informal ) with English producers. For new producers to get on their lists (at the wish of the producer or the wholesaler) then these agreements, if they include exclusivity as a clause, will need to be renegotiated

The point I'm making is that as new producers come on stream and as supply builds then the balance of power will shift significantly to the wholesaler\distributor...as well of course to the retailer. This is inevitable.

Those with strong brands and high rates of sale, those with a particularly strong rapport with their wholesaler(s) and, looking locally, those with little direct competition in the vicinity, will obviously retain more bargaining power than others....but the rules of the game will change to an extent for everyone.

Bearing this in mind then producers can take various steps to reduce the effects of this development and all of these steps imply taking advantage of the current position where demand is greater than supply:

1. Develop if possible binding agreements (rather than relying on handshakes).These should encompass decisions on exclusivity and with penalty clauses for the agreement being ended without due cause. Developing such agreements should not be seen to be implying an absence of trust, simply as normal business practice. Circumstances and people change, it is best to be protected, or at least compensated financially, if the agreement is terminated by the distributor.
2. Decide whether you wish a distributor to focus on you exclusively .Obviously if they do it gives you more focus but sometimes a broader range gives the distributor more credibility

so you benefit from greater overall sales. It may be for example that you have an agreement whereby your distributor has to refer any future English listing to you and you would not give permission if it was a direct competitor but would if you considered the listing complementary.

3. Maximise your price in the opening discussions. Until you launch you are not a “known value item “. Customers will have an idea of generic English prices (and a view of the quality of your brand\presentation) but nothing more specific. And there is a world of difference to your bottom line between selling at a retail price equivalent of £20 or £25 for sparkling and £10 and £15 for still and the distributor will not ( whatever they say ) have a precise idea within that range as to your correct position .Better to risk overpricing ( one can always come down or increase say the promotional allowance ) than under-pricing .It is very difficult to get prices up once you have launched through a distributor .They will come up with all kinds of arguments for keeping you at your launch price and ,as competition builds and their options increase , then these will have more force.
4. When you present to a potential distributor for the first time ensure you present the full proposition not simply the wine. Show the brand, talk through your vision and communicate the passion behind it. The wine itself is just one element of the mix.
5. .Ideally you should agree, after perhaps a six month trial period, a two year plan designed to build distribution and sales to an acceptable and realistic level and then review progress formally every six months.
6. As part of this rapport you should accompany the distributor or their sales people on customer visits and host tastings for the staff. A major competitive advantage for all UK producers is their presence in the market; this shouldn't be taken for granted. A side benefit here is that ,if the worst should come to the worst ,then you will have not only a pretty good idea of who your key customers are but also you will have a relationship with them.
7. All this is not to imply that a relationship with a distributor is an on-going power struggle. There is no reason why you can't establish a strong rapport and a wonderfully open relationship which develops strength year by year.....
8. ....however it's just worth remembering that there is inevitably a fundamental imbalance in any distributor relationship. All UK distributors import wine from many different countries and it is unlikely that English Wines (however successful) will become of core importance to any distributors but the most local. Therefore their importance to you will always outweigh your importance to them. Currently, your importance is at, or close to, its highest position as noted above. Hence the advice to seize the moment!

Mike Paul\February 2012