ACROSS THE DITCH WITH MISHA WILKINSON

8 TIPS FOR KIWI EXPORTERS

Far too much capital has been spent on expensive vineyards, wineries and cellar doors and has left little funds for branding, marketing and selling. Money has been pumped into the wrong end of the production machine and work needs to be done now to crank up the marketing machine," says Alistair King, principal and wine industry specialist with accounting firm WHK.

Historically, wineries have been production led and have waited until they have had a product before thinking about how to approach their markets, explains King, who also thinks that people have generally underestimated the working capital required with the production of inventory and then also the cash requirements to open and exploit new markets.

"If you're a boutique producer of fine wines looking to open up a new market you need to plan for about NZ$100,000 per market and be prepared for a 12 month wait before that market starts to perform – all going well," says King. His estimates are based on numerous small (family-owned) producers he has seen successfully expand their geographic footprint. While the actual cash outlay may be different if you're not paying yourself a wage for the time spent researching, preparing and visiting the market, the hard costs still include market visits (usually two to three visits to get a market up and running), marketing collateral costs, samples and involvement in activities such as the New Zealand Winegrower (NZW) programs for the specific market etc. And even with this level of investment you aren't guaranteed to be successful unless you have the right wine quality, a compelling story and smart packaging. And of course your chances are even better if you have a winning personality.

Given it's so hard and costly to export, do NZ wine companies really need the hassle? With sales in the home market decreasing by 5% in the past year and the number of new wineries increasing by the same percentage, and with no large scale government-backed immigration schemes on the horizon, it's safe to say the domestic market will be fairly stagnant in terms of wine consumption. One's only hope of increasing share is stealing it from someone else!

Things are different on the export front with NZ recording 26% volume growth for the year ending June 2010, taking exports to NZ$1.04 billion. NZ's big advantage from an exporting perspective is the international brand positioning that perceives it as a clean green country of artisan winemakers and boutique family-owned vineyards – and it is! More than 86% of NZ vineyards produce less than 200,000 litres per annum and more than 93% of producing vineyard land is at least under an accredited sustainable scheme. But this is a double-edged sword – although a huge advantage in one respect, small vineyards lack the time, money and focus simply because they *are* small boutique family-owned vineyards operating quite differently to corporate structures.

King admits that the 10-year financial models for vineyards that he developed for the starry-eyed budding wine producers in the past, didn't really include the level of investment for marketing and export expansion that he now believes is required. But as he quite rightly points out, estimating the level of marketing investment needed to establish a new brand isn't really the domain nor expertise of an accountant. So the issue is, where does a small winery go to seek help in developing a marketing and export strategy? And how do you get that information before you've turned the first sod so that those costs are also built into those long-term budgets – at least up to a break-even level?

There are organisations like New Zealand Trade and Enterprise (NZTE), who were formed specifically to help businesses develop and succeed globally (www.nzte.govt.nz). Over the past five years NZTE has had a scheme called the Enterprise Development Grant – Market Development (EDG-MD) in place to provide co-funding financial assistance for businesses to grow exports. Nearly 6% of businesses receiving grants have been wineries and these 72 wineries have received a combined total of NZ$7.69 million to date.

However if you didn't know about this scheme, it's too late now as the funding will finish on 30 June 2011 as NZTE changes to a 'focus on the few' strategy. At a time when the NZ wine industry has exports of over $1 billion and now acknowledged as a serious revenue earner for NZ, and at a time when the wine industry is in turmoil globally, it seems counterintuitive to stop this funding program. Dieter Adam, NZTE's director of Food & Beverage/ Biotechnology, explains that three of NZTE's grant schemes which include the EDG-MD program, are being combined into a single fund, the International Growth Fund (IGF). This new fund is targeted at "business that have the potential for high growth in new markets or which already have an established global presence but are seeking to expand or intensify their operations," says Adam. So will this be even better for NZ wineries given that the majority of them are small? The short answer is no – the funding criteria for this scheme is focused on "the potential to deliver benefits to New Zealand's wider economy as well as the business" – which really means you need to be a large winery with substantial export revenues or the potential for such.

Adam admits, "While smaller wineries may not be able to access the International Growth Fund, there are a range of other NZTE programs and services to help them improve their skills and be in a good position to enter and grow in international markets that they may be eligible for. This information is available on our website."

Support, however, is not all about funding. Here are a few tips you might consider if you're a small winery looking to venture into new export markets.

1. Is your brand 'export ready'?

Hopefully when you brainstormed that label on the kitchen table, you also took into consideration the markets to which you'd eventually export. No? Well think again about whether you have a brand that is really going to work in future markets – and you need to think about *all* the potential export markets. Is your brand name easily pronounced by people in your potential export markets? What's the meaning of that word in other languages? We've all heard of those brand name gaffes like the famous baby food maker Gerber who discovered their brand name meant vomiting in French.

Testing names in your potential export markets isn't difficult – people love to be asked for their opinion. I recently saw someone effectively use the social media tool LinkedIn to gather feedback from people across the world on their potential brand name and brand mark.

One of the most important elements in

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New Zealand Trade and Enterprise stand at National Restaurant Association USA. Photo: NZTE.

getting your brand 'export ready' is to trademark your brand name (which presumably you've already done in NZ) in *all* of your potential markets. There is a substantial cost to get trademarks registered overseas but there is a far greater cost if your brand name is challenged in any market requiring you to create a new brand. Registering trademarks is an investment and they become an asset for your company. (By the way, don't be surprised if potential distributors in the larger markets ask if your brand has been trademarked as it's a potential liability for them if it isn't!).

2. What's your target?

You need to know a huge amount about your domestic market before you even consider exporting because unless you know what makes you successful locally, you won't know what criteria to use when evaluating your potential export market. Understanding which sectors of the market work well for you domestically, and why, which brands you compete with in each sector and how your pricing compares with your key competitors is crucial information. Do you also know which segments are profitable and why people choose your brand over others? If not, there's a lot of information that needs to be gathered as your first step.

Picking potential export markets will include a multitude of factors including your proximity to that market (and how easy it will be to service that market), the degree of comfort you have in dealing with that country/culture, the advantages you may have due to overseas business connections perhaps from your prior (pre-wine) profession or perhaps a good knowledge of a market from having lived there previously.

Write a business plan for each potential market, which will force some discipline in evaluating the market in terms of size, growth and demand for the varietals you're producing.

3. The hit list

The next step is to compile a list of potential distributors for each market. You need to ascertain which brands are on their portfolio, understand their expertise and specialisation, find out which segment(s) of the market they cover and whether they have brands that would compete with yours.

A few hours of web research can provide enormous information with websites such as the International Beverage Network and Meininger's Wine Business International being good places to commence your research. If the market is just too complicated, you should consider hiring a consultant, (many MWs offer this service), to help navigate you through the maze of distribution options. Picking up the phone and talking to any contacts you may have in-market like retail liquor store owners, sommeliers or even the market-based reps from NZTE or NZW, is a good way to rationalise your 'hit list' of potential distributors and provide you with some of that street savvy information. (It's also amazing how many great trade contacts you can build from around the globe if you're actively engaging in social media.)

Once you have compiled your list you need to prepare your introduction – whether it's by email or phone or both, understanding that most distributors are bombarded by producers from around the world every day. Your approach has to stand out – it needs to be head and shoulders above any other approach the distributor has received that day/week/month. Can you tell people what differentiates your brand and provides enough interest in the first minute on the phone, or in the first couple of lines of an email, that makes them want to hear more or read more? This is undoubtedly the biggest obstacle in your export aspirations and the area that requires the most attention. You only get one chance to make a first impression and hopefully if you do this step right you will have forced a door open to actually meet some distributors when you make your market visit.

4. Running the numbers

Before you go into any market or even get into any detail with a potential distributor you need to know as much about the numbers as they do. This includes knowing what your price point would be in the market versus your competitors, at both the wholesale and retail level. NZW can help with pricing models or they can provide the average channel margins so you can build your own model. When you look at your volumes by varietal matrix, ensure these match the absorption capability of the segment you've defined – don't expect you'll move 1,000 cases of premium-priced Pinot Noir into London in the white tablecloth segment.

You also need to think through exchange rate issues and what your plans/options are when discussing pricing. Does the market you're considering buy in local currency or NZD? What currency do your competitors use? If the spot market for exchange rates is particularly disadvantageous for a distributor, should you consider fixing an exchange rate? You also need to think through what you're prepared to offer in terms of samples for the first year and this needs to match your segments, i.e. more samples are required for on-premise segments.

5. Entry and support strategies

Other numbers that need to be considered include how much you're prepared to put into supporting the market with visits, media activity, brochures and any other promotional activity. This all needs to be budgeted so you fully understand the costs required to launch and support your brand. And you will need to have a detailed response to one of the first questions a distributor will ask you – how will you support your brand in the market?

Gone are the days when you handed your wine over at the gate and never considered it again. If you long for those days, consider pulling out your vines and being a cherry grower instead. In an ever-increasingly competitive wine market, brands that are prepared to work hard are the ones that distributors are happiest to take into their portfolio.

6. The pitch

Assuming you have been successful in scheduling meetings with potential distributors, you need to plan for the sales call, which hopefully is delivered face-to-face. This is the most important meeting you will ever undertake. Think about the best way you can present your brand to a future partner – and that doesn't mean simply plonking a dozen bottles on their desk. Whether you use a laptop with great visuals and key points or print some charts and put in a display folder, it's important having something to talk to so that you can ensure you cover off all the information that's important about your brand during the meeting.

Also ensure you have some 'leave behind' so there is something the potential distributor can refer to after you've gone or pass to a colleague. You may also have done a version of your export plan for the market which has a summary of what differentiates you as a brand, the segments you're targeting, the (realistic) volumes you're expecting across your varietal mix over the first three years in the market and your pricing and/or currency options etc. Just think of the information a distributor might need to make a decision and ensure you give it to them in an easy-to-read format. At this stage you just want to try and eliminate any barriers to the distributor wanting to take on your brand.

As mentioned before, things are always easier if you have an engaging personality so decide who in your team is going to do the pitch to ensure you're putting your best foot forward.

7. Picking the right partner

Unless you know what you're looking for, how will you know when you've found it? It's worth writing down what you're looking for in terms of a distribution partner. Your criteria list should include segment preference/expertise, size and type of portfolio, reputation, financial security and so on. You may even include some of this information in the business plan that you leave after a sales call so they understand they are being evaluated against a set of criteria and that you're serious about finding the right partner. It's not just about whether they'll take you on to their portfolio – this should be a symbiotic relationship.

At the sales call ask lots of questions about their business and how they work with other brands. It's a good idea to get some reference account names and very important to ask about payment terms but, remember, these are always negotiable.

8. Afterthoughts

Walking out of a potential distributor's office after (hopefully) a successful sales call is only the beginning – you now have a lot of work to do! First of all, follow the visit up with a thank you email. Then you need to get moving to ensure the meetings with all other potential distributors are scheduled as soon as possible so that you're in a position where you can choose the right distributor. You should also do some checks on those potential distributors in your 'A list'. You might want to go back to any other sommeliers and wine retailers to get as much feedback as possible. As long as the sommelier/retailer understands you're not trying to sell them anything, just to get some market information, they're usually very happy to help with who they think is good in the market.

And while you're doing your checks, those distributors who were interested in you are doing the same thing. Hopefully before you even considered embarking on an export plan you put that extra effort into your website, didn't you? A potential distributor will certainly go to your website to find out more about you so you need to ensure all your press reviews are loaded onto your site, all your tasting notes are downloadable in pdf format and that the site is up-to-date and professional – especially if you've told them you're pretty savvy at marketing!

Money, time and expertise are the three biggest issues facing small family-owned wineries embarking on export programs. It's always hard to find money or time but hopefully some of these tips will help with the latter.

New Zealand Trade and Enterprise stand at Foodex Trade Show, Japan. Photo: NZTE.

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