

How you can double your wine business profits

WHITE PAPER



Change is here

The fine wine industry is in the midst of a sea change driven by a shift in customer behaviour and expectations, technology, developing business models and the effects of the digital explosion.

The wine market has lagged behind other sectors that have successfully adopted new operating models and harnessed the potential of digital technologies to develop their businesses.

Why has the wine industry lagged behind? Is it the traditional character of the sector or could it be that technology hadn't caught up with the real needs of wine businesses or been able to make an attractive enough business case?

But things are changing, and 2020 has quickened the pace of that change within the world of fine wine distribution and retailing.

The idiosyncrasies of our market, especially in respect of all the different types of inventory and the distinct business workflows that are needed for each inventory type, make the application of generic ERP systems from industry behemoths difficult to customise to the needs of fine wine merchants, retailers and importers.

Cost has been an issue. Wine is a long-tail market with thousands of small and medium sized operators, whereas only bigger players can afford to commit substantial up-front sums into software. Ours is a market where margin is closely monitored, and every percentage point matters. Cross-industry software that resellers then need to bend into wine shape struggles to deliver a return on investment, or many of the desired improvements, and most businesses have either done the math and backed off or have had a disappointing experience.

Level up

That's why Wine Owners built the Wine Hub, exclusively for the wine industry, created as its default business operating platform, to manage business improvements, market opportunity and growth.

The Wine Hub is affordable; offers a low cost of entry; has been designed ground-up for wine; understands the market and its evolving dynamics; comes preloaded with a database of products, information and rich content; and works out of the box.

For many companies, now is the time to level up with new technology that allows businesses of all sizes to take advantage of the many opportunities for improvement and growth.

In this white paper we show the ways in which a wine business can grow the bottom line through business initiatives that the Wine Hub supports. In order to illustrate, indicatively, how this can be achieved we've imagined a small business to provide clear examples of how the Wine Hub can make you more money and deliver a very rapid return on investment.



A Hub implementation allows a firm to drive growth through new revenue opportunities as well as business efficiencies.

Wineco

Our imagined business, henceforth referred to as Wineco, has the following characteristics:

Wineco currently has 3M per annum in gross revenue and makes 96K net profit before tax.

Wineco's current revenue mix is imagined as follows:

	Revenue	% of Revenue	Av GP Margin	Gross profit
Product pages / Wine-Searcher	700K	23%	18%	126k
Traditional Private Client business	1415K	48%	18%	255k
Brokerage (Gross)	250K	8%	10%	25k
Trade sales (B2B)	600K	20%	10%	60k
Storage	35K	1%	15%	5k
Total	3000K	100%	16%	471k

Wineco overhead expenditure is as follows:

Staff	250K
Establishment	40K
Finance, admin, tech, legal	60K
Sales and marketing	25K
Total overheads	375k
Net profit before tax	96K
Net profit %	3.2%

Wineco is online with a wine list but not e-commerce, since it's not connected in real time to Wineco's inventory.

Needless to say we have made some major simplifications in our assumptions to allow for a more easily understandable model.



Revenue uplift

Let's look at revenue opportunities or optimisations that are supported by the Hub and that are able to deliver a year 1 uplift.

Moving from product pages to e-commerce with a Hub Webshop. E-commerce is managed via an integration between the Hub and the Hub Webshop or other e-commerce, where the Hub masters inventory, and updates your shop in real time when stocks of a wine vintage are sold elsewhere (for example over the phone or via Liv-ex). This makes the management of e-commerce efficient and reduces the overhead commonly associated with getting online.

From product pages to e-commerce	20% Increase = 140K
Total gross profit impact at 18% margin	25K

Another aspect of the Hub is the ability to list wines for sale that are drawn from Virtual Inventory, such as importer lists or stock feeds (Liv-ex is a very good example here too, with whom the Hub is integrated). A bit like when brokering customer wines, these lists - that augment purchased inventory - generate purchase orders off the back of sales orders. There is specific import and update functionality within the Hub to make frequent updating easy if suppliers don't have APIs. A selective approach is the key to its success.

Uplift from virtual inventory	30% Increase = 210K
Total gross profit impact at 9% margin	19K

The Hub also masters information and rich content that informs buyers. Customer experience is improved, and relevant content such as reviews, scores, drinking windows, producer profiles and stories, and bottle shots increases sales.

Actionable content	5% Increase = 35K
Total gross profit impact at 18% margin	6K

Storing wines on behalf of private clients and facilitating the brokerage of these wines through you creates another source of revenue uplift. This increases private client sales in two ways. Firstly by providing online access to stored wine with performance information and market pricing, resulting in more selling decisions. Secondly by providing self directed brokerage capability, allowing clients to offer for sale 24/7 which is well proven as a driver of brokerage activity thanks to increased confidence and transparency through market pricing.

Leveraging private client reserves	75K increase
Total gross profit impact at 10% margin	7.5K

Self directed trading of client reserves	150K increase
Total gross profit impact at 10% margin	15K

The Hub has the tools to improve the consistency of customer experience thanks to workflow management that tracks and prompts actions; customer segmentation that gets the right offers to the right people; and customer history that supports efficient customer service. A great customer experience increases spend and word of mouth draws new customers.

Existing customers	3% Increase = 42K
Total gross profit impact at 18% margin	7.5K

Word of mouth	3% increase = 42K
Total gross profit impact at 18% margin	7.5K

Optimising margin by comparing with market pricing can be a very time consuming exercise, made easier using the Hub with inbuilt Wine-Searcher calls or application of Liv-ex market pricing, that highlights underpriced stock or arbitrage opportunities.

Price Optimization	0.5% = 10K
Total gross profit impact	10K

Summary of Revenue uplift and profit growth

Revenue growth	704K
Gross profit increase	97.5K

Cost saving

The Hub gives people looking to go out on their own what they need to get started and grow efficiently and without the need for lots of staff.

The Hub also offers the potential to save growth-related costs for more established businesses, principally through better inventory management, improvements to process management and operating effectiveness, connectivity and more efficient use of working capital.

Lightening the administrative workload of staff results in more productive use of their time that is part of a virtuous growth cycle. Efficient use of capital and people means you can grow your business much further before hiring additional team members.

How do you escape from the typical net profit percentage range achieved by a successful fine wine business of around 3-4% of turnover?

Part of the answer - as described in the revenues uplift section - is how you develop your revenue streams, and use technology to facilitate the development of those streams efficiently.

But just focusing on the top line will not of itself lead to an increased return on sales.

The other part of the answer is how work processes or activities associated with each revenue stream can be made much easier to run. For example, working with stock feeds from suppliers is fraught if you can't be certain the stock is available at any given time. Going online with e-commerce isn't straightforward either, if it creates a substantial new overhead in the form of originating content and rekeying information.

Without a fit for purpose platform that streamlines and reduces the amount of work needed to support new initiatives, your costs will rise at least in line with your revenue uplift.

With the Hub platform, there are significant savings to be had of mostly fixed costs with a hefty lift to productivity and agility.

Let's say that after 2 years operating the Hub, developing preexisting revenue streams and selectively pursuing new opportunities, overall revenues have grown by c23% per annum to c4.5M, and your gross profit has therefore increased to c720K, with an increase in your overheads from 375K to 420K. Net profit before tax is now 6.7%.

+2 years

Total Revenue	4,500K
Gross profit	720K
Overhead expenditure	420K
Net profit before tax	300K



Doubling net profit has been achieved through being able to make better use of your human and financial capital. Logistics and support staff are happier because their jobs have become more interesting, whilst you have a strengthened balance sheet.

“With the Hub API functionality the business was able to set up a web store in a very short period of time, and enabled us to expand our broking business massively by integrating inventory from our vendors.”

“The result has been beyond satisfactory as both our turnover and number of clients have grown exponentially.”

Iris Chan, Cote d’Or Fine Wines.

We invite you to run your own ‘what ifs’ using this approach to model the positive impact these initiatives could have on your business.


Contact us to discuss paths to growth, how to capitalise on business change, and to see how the Wine Hub can change your business for the better.

GET IN TOUCH

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