

SUCCESS On Premise



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The Uniqueness of the On-Premise Channel

One reason so many beverage companies struggle with the on premise channel is they fail to understand (let alone appreciate) the distinctions that make on premise unique from the off premise world. Success on premise is a get-rich-slowly proposition.

As free throws are to basketball and ten-foot putts are to golf, so is quality on premise distribution to the success of a wine brand. While three hundred yard drives are impressive to watch and help win golf tournaments, long drives alone will not provide success on the links.

Here are some of the most common complaints about on premise:

- It takes too long to make a placement and the placements don't stick
- Placements yield very low volume
- Restaurant wine buyers are elitist snobs who waste the salesperson's precious time
- The ROI is greater in off premise versus time spent on premise

On Premise as Brand-Building "Tool"

Quality distribution on-premise is a great way to gain exposure and trial for a wine brand. 80% of all wine on premise is sold one glass at a time. When restaurants offer wines by the glass, they give consumers a low cost point of entry into the category encouraging experimentation and trial. Consider, for example, that many people will enjoy their first-ever glass of Pinot Grigio in a restaurant.

Quality distribution in restaurants helps strengthen brand recognition and stimulates trial.

Other Benefits of On Premise Distribution

- Take pressure off retail channel to move the high-end, high-profit wines
- Healthy on premise distribution (target of 25-30% of depletions), reduces the need to use price as an accelerator in retail (eroding margins and brand equity)
- There are certain products in our portfolio (i.e. Icewine) that are sold more easily and effectively in a restaurant environment.

Service: the "Holy Grail" of on premise:

Restaurants and hotels are highly service oriented. They expect high levels of service from their vendors. We will be successful on premise in direct proportion to the level of service we provide to restaurants and hotels.

Keys to Success

Success on premise relies on five key competencies:

1. *Account Targeting*
2. *Territory Optimization*
3. *Sales Approach*
4. *Customer Service*
5. *Role of the Distributor*

Account Targeting

Proper account targeting is about going well beyond the typical method of assembling key account lists. It is better to use a data-driven, analytical approach that uses both *qualitative* as well as *quantitative* data to identify accounts that will deliver on our objectives. Some accounts will deliver volume. Others will help enhance the brand's image. Some will do both.

Territory Optimization

This is about sharpening the focus of sales activity on the most attractive and responsive accounts. Not all accounts are equal. Since it is impossible to call on all accounts in the marketplace, it is essential that we are disciplined in the use of our limited time and resources.

Sales Approach

The more we act like typical salespeople, the less wine we will sell. This is all about making the shift from a transactional, product-centered approach to becoming a source of business advantage to our customers. It is a "mindset" that puts us in the role of doctor, detective or best friend. The goal is focus on helping the customer reach their business objectives. We have to be very good at demonstrating the value CWUS brings to the partnership.

Customer Service

The restaurant and hotel industries are heavily focused on service. They expect the same from their vendors. This is a two-fold approach. First, we need to proactively managing inventories to prevent interruption in supply. Second, we need to be able to quickly respond to and remedy problems as they arise.

Role of the Distributor

Today's "super-distributor" is less capable than ever of helping suppliers achieve their business objectives. We have to be crystal clear about the things we will expect them to do for us versus the things we will do for ourselves.

Each of these keys will be discussed in greater detail in the pages that follow.

Account Targeting

The benefits of account targeting align with our strategic business objectives:

Strategic Imperative	How account targeting helps achieve this
Premiumize the overall portfolio	Selling the right wines in the right places; focus on the fine wine portion of our portfolio
Grow cash flow and ROIC	If we strive to make placements in only the most successful restaurants, the velocity of each placement will be higher than average (more bang for our buck)
Grow sales faster than expenses	By “fishing where the fish are,” we become more efficient and each placement will generate the maximum revenue
Build brands	Right wines in the right places insures maximum exposure of our brands to their target market(s); since we are selling only to the most successful accounts, trial is much more likely than in less successful establishments
Improve organizational effectiveness	Account targeting is all about “fishing where the fish are;” effective account targeting eliminates “value leakage” regarding our time and resources

Effective account targeting goes well beyond the traditional methodology of cross referencing various account lists like Zagat or Wine Spectator Grand Award winners. The idea is to *measure* for key performance indicators. For example:

Objective	Indicators
Volume in hotels	Number of rooms; square feet of meeting space; proximity to city center
Volume in restaurants	Private dining rooms, waterfront location, large outdoor patio, annual revenue above \$5 million; foot traffic is key-tourist areas, etc.
Prestige wines in prestige restaurants	\$25+ check average, large wine lists, celebrity chef, sommelier on staff, verticals on wine list, hold wine events

Segmentation

It is important to segment the accounts because each segment will deliver on specific business objectives. This segmentation also allows the brand marketing and trade promotion teams to align their programs with each segment.

Here are some examples of how to segment accounts and what the objectives are for each:

Segment	Objectives					
	Volume via by-the-glass	Volume via banquets & catering	Volume via programs & features	Distribution of Prestige Wines	Maximize compliance of mandates	Increased distribution of options
Hotels		X	X	X	X	X
National accounts with unit-level flexibility			X	X	X	X
High volume restaurants	X	X	X			
Prestige restaurants	X			X		
Sport & entertainment venues		X	X		X	X
Regional chains	X		X			

Once all of the accounts in the market have been evaluated and segmented, the design of the territory can begin.

Territory Optimization

Territory optimization is about sharpening the focus of sales activity and resources on the most *attractive* and *responsive* accounts. Left to their own devices, most sales people will allow their activity to gravitate towards the ‘squeaky wheels.’ Distributor sales reps are notorious for adding to this dilemma. It takes discipline to keep salespeople focused.

Territory optimization starts with the mindset that not all accounts are equal. Not all placements are equal. They will not all produce volume with the same velocity. Since time and resources are limited, we have to be very strategic with where we spend our selling time. Contrary to popular belief, more sales are NOT a function of more sales calls. ***The key is to call on fewer accounts with greater frequency.*** But they need to be the right accounts. Less is more!

Not all accounts are equal

<p><u>Attractive</u></p> <ul style="list-style-type: none"> • High revenue • High % BTG • High check avg. • High % domestic • High sales potential 	<p><u>Responsive</u></p> <ul style="list-style-type: none"> • Open-minded buyer • Honest, fair • Loyal • Values win-win
<p><u>Not Attractive</u></p> <ul style="list-style-type: none"> • -low revenues • -low sales potential • -high cost of entry- • -too far away 	<p><u>Not Responsive</u></p> <ul style="list-style-type: none"> • Opinionated buyer w/bias towards esoteric • Bias against “grocery” brands • Dishonest • Seeks win-lose

Analytics are used to measure the attractiveness of each account. Then all accounts are ranked in descending order of potential. Territories are then designed to optimize time and resources for the greatest possible ROI. Obviously, the account targeting and segmentation functions tie into this as well. Of course, geography plays a critical role in order to reduce “windshield time.”

Territory optimization leverages the 80/20 rule. It is not possible to call on every account. Therefore, it is essential we are very deliberate about which ones we DO call on.

The 80/20/30 Rule:

If you spend any time at all on the bottom 30% of the account base, you are guaranteed to cut your potential in half.

Sales Approach

This is also a shift in mindset. Success on premise is about service and adding value to the business partnership. We need to move away from the transactional approach (where the focus is on our products and prices) to become ***the single most powerful source of business advantage to our customers for wine***. In on premise, the more you act like a salesperson, the less wine you will sell.

Most salespeople are trapped in a conventional sales paradigm. The environment in which we sell has evolved but the selling process that most use has not kept pace and adapted to the new realities.

	Era 1 1955-1975	Era 2 1975-1995	Era 3 1995-20??
TOOLS	<ul style="list-style-type: none"> • Sales Script 	<ul style="list-style-type: none"> • Questions • Needs Analysis 	<ul style="list-style-type: none"> • Business Process Analysis
SKILLS	<ul style="list-style-type: none"> • Presenting • Closing 	<ul style="list-style-type: none"> • Listening • Trust Building 	<ul style="list-style-type: none"> • Business Knowledge • Program Management
ROLE	<ul style="list-style-type: none"> • Persuader 	<ul style="list-style-type: none"> • Problem Solver 	<ul style="list-style-type: none"> • Source of Business Advantage

Source: *Mastering the Complex Sale*, Jeff Thull

CWUS is uniquely positioned. Because of the size of our portfolio, our education capabilities, and our strategic insights, we have a golden opportunity to separate ourselves from the pack and become ***THE premier source of business advantage for our on premise clients***. But, in order to do this, we must move away from the old Era 1 and Era 2 sales paradigms. We need to stop “presenting” and start asking questions about how we can help our clients grow their business. Then we need to deliver on those business solutions.

Although the topic of *price* will be covered later in this paper, it is important to note the importance of avoiding “commoditization.” Commoditization happens when buyers are forced to respond to competing sales presentations by devaluing the differences between products and reduce the decision to the lowest common denominator: *price*.

“Price is only an issue in the absence of value”

Customer Service

As mentioned above, restaurants and hotels are highly service oriented. They expect high levels of service from their vendors. As a vendor, customer service “makes or breaks you” in on premise. For most people working in restaurants, buying wine is only one small component of their overall responsibilities. They simply do not have time to chase down wine vendors for pricing problems and out of stock issues. The easier you can make their life, the more of their business they will give you. It’s just that simple.

For many restaurants in America, the portfolio of Constellation Wines US is so extensive; it could literally meet ALL of their wine needs. But, we will never reach that level unless we take customer service seriously.

Keys to great customer service include:

- Respecting their time. Time is one thing restaurant operators have little of and they hate to have their time wasted. Be prepared. Do the homework. Do not waste their time asking questions you should already know. Be on time. If you ask for a 30 minute appointment, be gone in 25.
- Focus on *their* needs. Talk very little except to ask questions. Every restaurant operator in America needs help with something. You can get anything you want in life if you help enough other people get what *they* want.
- Be accessible. When a restaurant operator needs something, they want a fast response. They will call the people they know they can reach easily. All the “jump balls” go to the most accessible people.
- Keep promises. For many of the reasons already mentioned, restaurant operators like to surround themselves with vendors who always do what they say they are going to do.
- Don’t run out of product. There is nothing more frustrating to a restaurant operator than running out of product. Restaurants carry a tiny fraction of the inventory of a retail store and each out-of-stock is like taking money out of their pocket or, worse, sending the customer across the street to their competitor.
- Service after the sale. Staff training and sampling are essential. At the conclusion of a feature program, the salesperson should follow up to see if there are any loose ends to tie up or key learning to capture. Restaurant operators love people who follow up after a sale and will richly reward those who do.
- The price is the price. It is essential that the restaurant buyer receive the price he/she was quoted. It is unbelievable how infrequently this actually happens. Failure to diligently stay on top of this is a guarantee that you will do less business with this customer in the future.

The Role of the Distributor

This may offend some people but today's super-distributor is much less capable of delivering on our business objectives than ever before. We need to be very clear with ourselves regarding what we will expect them to do and what we will do for ourselves.

When it comes to on premise, *relationships* are the "keys to the kingdom." We need to have our *own* relationships with the top accounts in every major market. To the point about Account Targeting above, it is also critical we know (from our own research and analysis) which accounts are the most attractive.

Things we should be doing ourselves:

- Gain distribution of our high-tier prestige wines in high-end prestige restaurants (including highly allocated wines)
- Gain distribution of options and accelerate volume of mandates in the national accounts with unit-level flexibility (especially high-end steakhouses)
- Gain distribution of our CORE brands in the top 8-10 hotel properties
- Gain distribution of important new product launches in target accounts

Things the distributor should do for us:

- Gain broad, high quality distribution of our CORE brands
- Insure maximum compliance of mandates and options in national accounts (especially hotels and high-end steakhouse chains)
- Gain distribution in the small regional chains
- Gain high-volume distribution in the high-volume independent restaurant venues (see Account Targeting above)
- Manage inventories

It is important to separate these two functions:

1. Managing the distributor on-premise sales force
2. Developing our own relationships in the marketplace

Ideally, there would be two different people managing these functions. There will naturally be some overlap but, for the most part, the two functions are distinct. When it comes to achieving our most important priorities in the very best accounts, we should be taking responsibility for those outcomes ourselves.

Pricing for On Premise

We need to be of this mindset: If our company can get to a place where restaurants and hotels *want* to buy from us because of all the benefits they receive by being in partnership with us, it will no longer be necessary to lower our prices to make a sale. Price is only an issue in the absence of value. If we bring enough value to the business partnership, the customer will pay a premium price.

Unfortunately, our distributor partners work in a manner that is counter to this philosophy. It seems all the professionalism has gone out of selling wine these days. In the absence of a real strategy or a well articulated value proposition, most salespeople will default to a lower price to make the sale. Distributors are not brand builders.

The restaurant business is a very low margin business and cost is certainly a big factor. To be sure, most restaurant buyers will work very hard to get the vendors to lower their prices. However, the professional salesperson knows how to add value to the relationship (see Customer Service above) and avoid the trap of having his products commoditized. We must strive to find ways to differentiate ourselves in other ways besides price.

As stated above in the Customer Service section, the most important thing is making sure the product is delivered at the quoted price. It is also essential that the price remain consistent throughout the program.

On Premise Brand Building

There are several key brand building activities that can *only* be done on premise:

- Wait staff training
- Wine dinners
- Wine-by-the-glass programs
- Catering sales

CWUS should strive to be best in class at each of these activities. We need to vigorously embrace them and proactively invest in them. For decades, the Robert Mondavi Winery sales team invested heavily in staff training and wine dinners and the payoff was huge. It is difficult to measure the ROI of these activities (especially in the short term) but that by no means implies they have no value.

Wait staff training

Not every account is deserving of this investment. Our best-in-class training should be reserved for those accounts engaged with our priority fine wine brands. This will guarantee ROI in the long run.

Wine dinners

Once again, only a select group of accounts should receive support with this activity. Too often, the distributor requests that a vendor do a wine dinner for one of their customers simply as a favor. Too often, wine dinners are executed at a restaurant that is not very successful. We need to have a rigorous process in place to pre-screen candidates for a Constellation wine dinner. Let our competitors waste their time on the low value opportunities.

Wine-by-the-glass programs

Wine-by-the-glass slots in successful, high-volume restaurants are like “gold.” We need to research, analyze and identify the most attractive wine by the glass slots in the market and “invest” in them by supporting them with LMF funds and the resources of our Trade Promotions team. Not all placements are equal. We need to place a high value on the ones that are the most valuable.

Catering sales

This mostly applies to hotels but the sheer volume being done in this segment of on premise is staggering. Distributors use these “honey holes” at their own discretion to flip placements in and out to make their quotas. CWUS should identify the most attractive ones and make sure we are getting our share. It will almost certainly take some added investment but, again, the ROI is there.

Promotions

Every promotion that is aimed at on premise needs to accomplish one or more of the following objectives:

- Increase foot traffic
- Increase incidence (number of people ordering wine)
- Increase check average
- Increase guest satisfaction

Independent restaurants rarely have their own marketing staff. They are in desperate need of ideas. The problem is, too many promotions succeed at nothing more than simply trading a customer from one product to another. This is a waste of time and money.

CWUS has the opportunity to be the go-to company for bringing promotional ideas to the restaurant trade but we need to keep the four objectives above in mind if we are to be successful.

Tools

One of the big misunderstandings about tools is that the creation of one will drive sales. Most on-premise tools are “compulsory” to doing business in the channel. In other words, it is just the cost of doing business. Examples of these tools would be cork pullers, crumbers and dummy bottles.

It is best to think in terms of “hard” tools and “soft” tools.

HARD TOOLS	SOFT TOOLS
Cork pullers	Stories
Crumbers	Key brand messages
Large formats	Server education pieces
Dummy bottles	Brochures
Table tents	Product catalogs
Server cards	Consumer insights
Bottle stoppers	Category Management
Ice buckets	Ideas

Tolls need to be part of a larger strategy. The best tools are the ones that are built in collaboration with the customer. The strategy, program, or idea comes first: then the tool.

Summary

Success on premise is about having the right *mindset* and *approach*. It is about taking the time to understand the unique needs of the channel and then finding ways meet those needs in a best-in-class way. Restaurateurs place a much higher value on service, dependability and trust than they do on products and price.

The world is filled with great wines and people whose heads are full of wine knowledge. What the world lacks today is a company that “gets” on premise. There is a huge vacuum in the industry right now. The gold standards of on premise companies (Robert Mondavi Winery, Kobrand, Ste Michelle, and Treasury) are no longer a factor. There is a huge opportunity for Constellation Wines US to step in and fill the void.

The big question is do we have the patience it will take to build a great on premise organization? Success on premise is a get-rich-slowly proposition. It is said the best time to plant a tree was twenty years ago. The second best time is TODAY.