

Shane Pettiona

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Shane Pettiona, one-time chief operating officer of Carsales.com.au, says he's never been involved in a dotcom that has had such growth and been so warmly received.



He's talking about Cracka Wines, Australia's largest retail wine site, which has nabbed 500 wineries and 100,000 customer 15 months after it was officially launched.

He says it's on track for between \$20 and \$30 million in annual sales, putting the company on track to reach a target of \$100 million over five years despite goliath competitors in Woolworths and Wesfarmers.

Pettiona says Cracka is well placed to capture the explosion in online wine sales, tipping it will soar from 4% nowadays to more than 30% by 2016.

But the outlook is not so good for wine producers, with Pettiona saying he doesn't see an end in sight to the wine glut. And he reckons the optimal level for the Australian dollar for local winemakers is in the 70s, well below current levels of trade for the Australian dollar and continuing to plague our export-dominated industry.

Still, Pettiona says online presents an export opportunity for wineries, particularly to Asia. And he argues that the problem with many sites is they aren't designed with the customer in mind. Putting reviews and giving customers a couple of auction opens keeps them coming back, he says.

Hello, thanks for your time. You're now more than a year old at Cracka Wines.

Yes, we actually launched in September last year but we did a soft launch. We really have only started ramping it up significantly in probably the last four or five months, going out there and advertising and building the brand because we are very comfortable with the technology and the support from the industry underneath it.

We've got close to 500 wineries signed on the system now.

And how many customers?

We do about 100,000 that we communicate with. But I sort of look at it that we have two customers really: we have the trade and the wineries that we have got to satisfy with the performance, and the retail customer that we have to deliver a quality product to and give them value in many ways, shapes and forms.

How many did you expect to have at this stage?

We're a little bit ahead, actually, so we're tracking well. And we are in this for the long haul; we believe we have got the right model.

Wine is the market that we chose to launch into for many reasons: one, the strength that Coles and Woolworths, the two big retailers, have over the wine industry has put a lot of pressure on the wine industry.

There's also the glut, and the third and probably most important thing is wine is very much in its infancy as far as sales online. Only about 4% of wine is actually sold online which is quite surprising – it's a relatively adaptable vertical for online sales but retail as a whole has been quite slow.

It's similar to when we had carsales.com.au where we worked with the industry to build a system and satisfy consumers. When we did that there was only a couple of percent of consumers when online searching for cars online and inquiring on cars that ultimately led to sales.

So even though it is 10 or 12 years on, the wine industry from an online perspective is similar to where it was back then.

You mentioned earlier the dominant behaviour of the large supermarkets and the effect on the wine

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industry, there has been quite a lot of talk recently about supermarkets and their private labels. Is that disaffection heating up in light of Woolworths' stated pledge to dramatically increase their home brands products?

The supermarket chains are not having to do the research and development investment in producing wine and really are just taking advantage of the glut that is in the market, getting a quality wine at a low price and then labelling it themselves.

The problem with that is that it reduces the strength of brands. And a lot of brands have put in a lot of time and effort over the years to build a brand and they can be sort of ruined very quickly because people don't become dependent on brands anymore, and secondly the price that they can only receive for their wine makes it very tough for them to survive.

What Cracka Wines does it that it gives them an alternative in this industry where they can have another sales channel.

I look at it that we are a bit like a sales and marketing arm for a lot of the wine industry who don't have both the manpower and funds to get going and move their wine from a local market to a national market and ultimately international.

We also know that the internet is forever growing and our lives are becoming seemingly more dependent on it. Most wineries don't have the resources to create a channel.

What happens if we continue to do what we are doing and we hit our numbers, we also give them that opportunity at having an alternative and leveraging us as a bargaining chip so they can hopefully get a better commercial deal from the big retailers.

You talked before about online accounting for 4% of overall wine sales, but Woolworths and Coles are also online. How do you compete?

Yes, they have strong heritage brands that dominate the market so that is a challenge and one that we'd like to take on.

It is no different to when we were at Carsales and there was Drive and Cars Guide and Trading Post – they were owned by big strong brands with a lot of media reach and Carsales was an independent player.

The benefit of what all the pure dotcom companies have is they don't have a traditional business, a bricks and mortar business.

So yes, even though you have Coles and Woolworths making more of a play online, their assets are tied up in bricks and mortar businesses so their job is still to get you in store.

When we first launched Cracka, Dan Murphy's [owned by Woolworths] was the biggest traffic wine site in Australia and they never even sold a product online. It was all just about a store locator, they had some type of catalogue type representation but you couldn't purchase.

They've evolved that over the last few months significantly; they've launched a new site to sell wine online but still their objective is to get you in store. They are very good at that once they get you in store.

What happens is that it is harder for them to push home brands online; it is easier in-store because of how they can organise shelf space and tastings, etc.

Online their strength is still leveraging traditional heritage brands that have been established in the market space for some time.

But because we are pure players that we can be more fluid and innovative, and we can take more risks because we haven't got billions dollars that we are already trying to protect.

You've predicted that 30% of wine sales will be online by 2015/16 – that's a huge jump from now. What is the prediction based on?

We've done some numbers and I think there is one reason why online wine sales have been so small; firstly, no one had gone and built a site to satisfy the consumer.

There were sites there and there were some information sites and Cracka right now is already the biggest wine site in Australia from an information perspective and products for sale.

If you don't have a system in the market place that can satisfy the consumer, that market is not going to grow.

With us doing it and others that have evolved over the past 12 months and the fact that the big retailers are pushing into it as well, I actually think it might even be more than that. It is just the way the market moves and it is based on some retail knowledge we have, the growth of retail and where it will be. We've seen the big booms in other areas like classified businesses with Carsales and Seek and even REA and ones like that. Retail is the next big boom, it really is.

You said that you have got 500 wineries at the moment. How many are there in Australia?

You said that you have got 500 wineries at the moment. How many are there in Australia?

There are actually about 3,500 but the thing is, the top 500 or 600 are about 96 to 97% of all wine sales. So there are wineries and there are wineries, if that makes sense.

Even with us having 500 wineries, we've actually got over 2,500 labels.

So when are you expecting the wine glut to come to an end?

You know what, I have got to tell you I don't think it will.

One of the things that occurred in the wine industry – and it wasn't siloed to Australia – was in the 90s, everyone went mad on wine being this fantastic investment, and part of the reason it was because there was a shortage.

There was a supply and demand element globally, and the thing is all the big merchant bankers and investment banks started telling everyone, and all these tax-effective benefits came out.

And the problem is that everyone started doing that around the world. What that caused is too much tonnage globally, here, France, America, Spain.

Some countries are producing what's in the market.

But Australia would have been in a better position now if didn't have the effect of the Australian dollar going up so hard.

The inflation of the Australian dollar has really hurt our wineries for export.

What's the optimal level for the Australian dollar for the wine industry?

Well, when the dollar was in the 70s that was good for Australian wine because we export more than we drink locally anyway.

Now when it was up at \$1.10, I won't make mention of the names because I don't want to hurt their brands, but a couple of the big wineries who are with us were selling into North America more than 100,000 cases and they were about to get all of their contracts cancelled because their wine was going to be too expensive, because of that 30-40% increase.

The problem with that is you then have to still move that wine. You've produced it. Unless you rip them out they are going to keep yielding.

And what you have got to watch is that you don't start damaging the reputation of Australian wine by producing low-quality wine because you start selling it cheaper. If you are selling it cheap there is only so much money in it for you, so you cut corners, it's a fact of life.

And that is what I believe has started to happen in Australia; our reputation a few years ago was better than it is today and that's partly because we have been selling very cheap wine to an export market because we have got to clear it. That hurts the industry.

Cracka sits in that \$10-35 a bottle range, which is the bulk of what people drink at home. We really sit in that mainstream part and that is why really, our competitor set is Coles and Woolworths.

So there isn't going to be a reduction in that oversupply any time soon if at all, does that mean there are too many producers in Australia?

I think there is. You see, countries globally like Spain, where they have a very similar situation to Australia, the government is paying them to rip out vines. They are getting compensation for reduction.

Australia is in a situation where there is too much acreage under grapes for how much wine we drink and if we can't export it, there's difficulty.

But I would like to think that the one thing that is beautiful about the internet is there are no geographical boundaries. So if you can create a system and have the logistics set up, which is what we are trying to do well, we will take wine from being local to national to being international.

Where are the export targets?

I think Asia. It is a big player; most of your Asian countries that have big populations are starting to get into table wine. A lot of Asian countries don't drink a lot of wine per capita; places like France drink 57 litres per year on average [per year]; Australia is in the 20s and then you have Asia that doesn't even get to one.

The market potential is good – people are consuming more wine in Asian countries but you have to make sure the quality is good otherwise those countries will try to produce it themselves.

For example, China has more vines under acreage than Australia does. People don't think that. But at the same time China has 1.3 billion people and Australia is just over 20 million; there is only so much we can drink.

So I think for us to survive and produce quality wine, you have got to put quality wine into markets that you presently don't have the strength in and the only way they can do that is by getting representation of the product and having channels that people can engage with.

One thing that's a bit different about your site is that you have reviews; in some ways, it's surprising other sites don't have them. How has this contributed to the success of the site?

I think that has been integral. The information is about education and building people's confidence in purchasing a product.

There are two forms of that, there's the professional writers, and then your average consumer who drinks the stuff and wants to give a review on it themselves.

I think it is very important because it is like people's due diligence.

One thing you can do with technology – and we'll get better as time goes on – is start being more customised and personalised with the content.

So if you are a chardonnay drinker and you don't really drink shiraz, over time we won't really push you into those product; we'll give you some form of representation but there is no point constantly hitting you with shiraz offers and shiraz wine if you don't have any interest in it.

That is the beauty of technology; we can track what people view, what they bid on and what they purchase. We capture that data and we customise it and do the same with when we e-market to them, what is it that they start viewing and what do they click on? So over time, we'll just send you relevant things.

Now that Cracka is established, where would you like to go next? Will you be purchasing another business?

I sit as an executive chairman at Cracka and I am very inspired with Cracka and the numbers we are hitting. I have never been involved with a dotcom that has had this growth with all the different metrics so quickly and also such a warm reception from the industry as well and consumers.

So I think for me Cracka is not all my time but I think at the moment there is a big job to do within.

We didn't do this to be a small business; we did it to seriously stimulate and try and grow the wine industry.

I am not going to spread myself too thin and not do anything right. I'd rather do one thing right than three things poorly.

What's your most recent revenue figure?

I call this really year one, as we didn't go out and push this site until we were comfortable with the technology and industry behind us. We want to do a minimum of between \$20 to \$30 million in sales and we are on track for that.

How many staff do you have?

Up in Cracka there are 23, they are based in Sydney, all the development is done by another company that I am chairman of called Creative Factory.

Thank you for your time.

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