

THE WORLD'S LARGEST WINE RETAILER

INTERVIEW WITH DAN JAGO

Dan Jago has been the head of Tesco's Wine, Beer and Spirits division for eighteen months. One of WalMart's major global competitors, Tesco dwarfs the American giant when it comes to wine. Robert Joseph spoke with him about his plans.

Meininger's: You once described yourself as a short-sighted, entrepreneurial softy. How does that description fit today?

Dan Jago: Well the short-sightedness - which is closer to myopia - is a physical condition and not anything to do with the way I work! Entrepreneurial is definitely true, but I might redefine softy. When you are a salesman it's good to be soft in the right places, but I like to see myself as one of those advanced types of confectionary with a soft centre contained within a complex, slightly crispy outside coating.

Meininger's: How big a player is Tesco in the wine market?

Dan Jago: Our total alcohol sales are now worth £3bn (\$6.25b/€4.3b) per year, which is made up of wine sales of over £1.5bn, with beer and spirits adding a further £750m each. Tesco is actually the largest wine retailer in the world, twice as big as the Liquor Control Board of Ontario (LCBO). While the beer range is small but growing, wine already comes to 1,150 SKUs.

Meininger's: Like every other major wine retailer in Britain, Tesco is criticised for being part of a discount, Buy-One-Get-One-Free (BOGOF) and promotion culture. How do you react to that charge?

Dan Jago: Firstly, it's important to say that we don't do BOGOFs, we do half price offers - and we stop at half price. Some of our competitors have recently gone below that level. Fitting into a bargain culture is not actually the rationale behind discounting. Customers have told us that they like promotions. The wine market is a very congested, complex, confusing area. Discounts are very good signposts to what consumers should be interested in; it gives them the opportunity to experiment. We only run 38 promotions in any month. Roughly half of those will be branded, half will be own-label...

and we do promotions on an entire range two or three times per year. It offers lots of opportunities for both wines and customers. No wine is ever on promotion more than four times a year, a possible total of four months out of 12.

Meininger's: Can producers be on Tesco's shelves without promoting?

Dan Jago: If the producer is confident that they are worth full price, there's no need to talk about promotions. In fact, roughly two thirds of our wine is not promoted. However, volumes for those wines are smaller. You have trouble selling more than 5,000 cases a year. Much of the promotional focus is on New World wines, which have greater availability and are more branded than non New World wines.

Meininger's: Does this mean that the Old World is handicapped when it comes to moving large volumes of wine?

Dan Jago: Yes and no. Everyday £3.99 Rioja or claret sells vast quantities with or without promotion. But the average claret drinker is an ageing male. It is easier to introduce new drinkers to New World wines or Old World novelties like Albariño than to claret.

Meininger's: Does the Old World need to build its brands?

Dan Jago: You could argue that Chablis is a strong brand that has been successful because it has four of five big producers. Bordeaux, in spite of being one of the strongest brands in the world, doesn't enjoy that kind of perception in the international market, beyond its first and second growths.

Meininger's: So, is it worth you spending time in Bordeaux teaching producers there how to sell wine to your customers?

Dan Jago: Heaven knows I've tried in the past, but consumers have such infinite choice that they don't need to make claret part of it.

Meininger's: British duty rates and retailers' margins have gone up, but prices per bottle have barely risen. You are accused of cutting income to producers.

Dan Jago: Margins have risen - and we work with our suppliers to ensure that we get the margins both on and off promotion. However, unlike some of our competitors, margins are very different between these periods. The revenue for some producers may have gone down over recent years, but this is not true in all cases. Prices of brands like Wolf Blass, and Nottage Hill have gone up; others have been kept down by a competitive environment.



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Meininger's: Tesco is credited as having made British consumers accept wine with screw caps by pressurising producers to adopt them. Are you going to be doing the same thing with your carbon footprint labelling campaign?

Dan Jago: Tesco certainly made it easier for customers to understand screw caps, first of all by introducing our own brand first, then by working with brand owners who might not otherwise have introduced them.

Meininger's: Are supermarkets taking on the role of wine educators?

Dan Jago: Part of our responsibility as a supplier to 70m people per week is to make it easier for them to make better choices. If that's about sustainability, recycling, low energy, trying better wines, and if it means working with our supply base, we'll do so. Last year we worked very closely with General Electric to halve the price of our low energy light bulbs. Sales went up from 2.5m to 10m bulbs.

Meininger's: You make much of listening to your customers. How much of that relies on the information you derive from the purchases made by the 15m holders of Tesco's Club Card?

Dan Jago: We use it a lot. Our systems allow us to look at customers individually, if you go into a store and buy six bottles of Albariño, for example, a coupon might instantly appear giving you a discount on your next purchase of Grüner Veltliner. Our competitors were dubious when we introduced the card, but they might take a different view today.

Meininger's: You were widely quoted as saying “Don't just bring me deals, bring me innovation”. How effective was that call?

Dan Jago: Some of the suppliers relish the challenge. I was pleased to see the low alcohol wine that we took on – only to be told that it broke European rules.

Over the last ten years our suppliers have seen significant growth through retailers using wines to bring customers into their stores. Not on the basis of price, but on availability. If they want prices to rise, they are going to have to persuade customers why they should pay more. Not educating them to know more, but educating them to know why they should pay more. I don't want aspiration to drive it all. In Britain we have a very healthy level of cynicism about the role of brands and marketing... and we tend to look at products and say 'have

I got my own opinion of this or am I simply relying on other people's opinions?

Meininger's: Tesco recently bucked the trend by increasing its range by 300 wines. Why?

Dan Jago: In fact, we added 370 and removed 70, with an aim to providing customers with authentic choice. We find some wines do far better than one might predict. Our Albariño, for example, was a surprising win. It actually exceeded forecasts more than our Grüner Veltliner, which benefited from universal press coverage. Wines like these are there to offer a complete range for a diverse set of customers. They are probably not there for the Blossom Hill drinker.

Meininger's: Tell me about the rationale behind your Tesco Finest and Reserve wine ranges.

Dan Jago: Finest was launched before I arrived. We've spent a lot of time looking at it since with the view that Finest had to be the best example we could find in sufficient volume to meet expectations. So we've taken a lot of products out of Finest and moved them into a tier called Reserve. This means that the 60 or so Finest wines can be treated as an independent entity. There are, for example, only a couple of thousand cases of our Finest Sauternes, and maybe 7,000 of our Finest 2002 Champagne. We have a Finest Hermitage selling at £20 bottle, and I'd be amazed if we sold more than 1,000 cases in the first year.

Finest starts at £5.99, and when you know how small the market is at that level, you'll understand the limits to the volumes we could ever sell. Reserve might sell in volumes of eight to ten thousand cases and upwards, but it's hard to put figures on it. If a wine goes unexpectedly well in Finest, we might find a less expensive example to sell as a reserve.

Every one of our stores will have a finest wine in it somewhere, but there is no point in putting a bottle of Finest Sauternes in every store. We wouldn't have the stock.

Meininger's: You credited the 'Long Tail' – the potential of big retailers to handle niche markets – as one of the reasons for increasing your range. How do you ensure that you sell all the bottles you have bought?

Dan Jago: It's terribly dull, but we have benefited hugely from a new ranging system. Our stores used to be graded from A,

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the smallest, to K, the big ones with the biggest ranges. We now go from A to Z, which enables us to differentiate between up market, main market, and price sensitive stores irrespective of size. So, we are able to fit almost every product to the appropriate store. Further, everything that’s available in store is available online, where there are additional mixed case offers online, plus our Wine Club and Wine Fairs, so, although I’m sure it happens sometimes, we shouldn’t ever be left with unsold stock.

Meinger’s: Can we talk about the way Tesco’s runs its wine businesses outside the United Kingdom?

Dan Jago: I work with all of the overseas operations where they need support, advice or introductions to suppliers. We are regarded as the hub - and all the satellites are able to use us as they see fit. We’re developing a new range in the Czech Republic using suppliers like Constellation, Yvon Mau, Freixenet and others. On the other hand, our new Fresh & Easy chain in the States is taking its entire range from wines that are already being sold here. We work closely with suppliers in Ireland, but that is a completely separate business. In China we have 49 hypermarkets, but we are not yet in India.

Meinger’s: What has Fresh & Easy taught you about the difference between the British and American markets?

Dan Jago: People say that if something works in the US, it will work here, but you must imagine the two as entirely different markets and deal accordingly. This is a very, very competitive market with very direct links between producers and retailers. The three-tier system in America could be regarded as protectionist for those within it, but it was designed to prevent prices going below a certain level. Although the Americans consume less per person, far fewer people are making more money out of wine.

Tesco can be proud of having made wine a mainstream product in Britain by making it accessible to more people through promotions and tastings. In America it’s far from an everyday product. I know that’s thought by some to be a good thing, but I don’t subscribe to that attitude. And where someone has found a way through that system, with Two Buck Chuck, sales have been astronomical. The biggest brand there is now a \$6.99 import from Australia (Yellowtail). That says that to a

majority of people wine can be more than an aspirational upmarket product.

Tesco’s view is that it can be a bottle of Lafite on a special occasion, and it will stimulate all your aspirational needs, but you should be able to buy wines at £2.99 or £3.99. I want any customer who comes into our store to find a very interesting range of wines that will give him or her no reason to go elsewhere.

Meinger’s: So what happens next?

Dan Jago: I have an extraordinarily exciting job because I can encourage significant change in the industry. Last year I talked a lot about innovation. This year it’s much more aimed at helping customers to understand the messages that are important to society. There are lots of changes, both societal and commercial, which are on the agenda.

I’d like to help customers to understand why they should spend a little more to get something that really is better - and I’d like them to understand their role in responsible drinking, to enjoy two or three units a day rather than a lot on Friday night. We were the first to put units of alcohol on the back

of own label wine and are leading the way in all 1,800 stores in telling people how to use alcohol responsibly. If we don’t do it, how are we to maintain moderate sustained growth against a backdrop of societal, government and legal pressure to change the way alcohol is sold? ■

Fact Box

Annual alcohol sales: £3bn (\$6.25b, €4.3b)

Wine	£1.5bn
Spirits	£750m
Beer	£750m

Number of store outlets around the world

United Kingdom	1800
Thailand	420
Poland	279
Japan	114
Hungary	113
South Korea	105
Eire	95
Czech Republic	85
Slovakia	53
United States	50
China	49