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A TOP DROP

Naked Wines is leading a revolution in the Australian wine retail industry, going up against a supermarket duopoly that currently owns more than 70 per cent of the market share.

Images by Scott Ehler

Empowering winemakers and connecting them directly to the consumer—that's the key philosophy behind Naked Wines. Since launching almost three years ago, the unique business model, which uses online crowdfunding to generate revenue, has experienced unexpected exponential growth.

CEO Luke Jecks has been leading the way since day one and is proud to be able to deliver exclusive wines at wholesale prices by removing the overheads that drive up the cost. His team works to connect independent winemakers from all over Australia and New Zealand directly with people who enjoy drinking quality wine, without the top-shelf price tag.

In the first six months of Naked Wines' existence, roughly 40,000 cases of wine were sold; a year

later, more than 100,000 were delivered to customers in every state; and then, at last count, that figure had risen to a whopping 200,000-plus. "We have more than doubled our sales volume each year," Luke says. "Repeat business is really critical for us, and our customers are really sticky. Having said that, there is still a lack of brand awareness in the market, so we're expecting those numbers to double again this year."

The concept of Naked Wines was first conceived in the United Kingdom by Rowan Gormley in 2008. Rowan was formerly the right-hand man to business mogul Richard Branson and was responsible for companies such as Virgin Money and Virgin Wines. He left Virgin to start up his own business venture, Naked Wines. Once that was up and running, he approached Luke, whom he had worked with at Virgin Wines, with

the idea of tapping into the Australian market.

"We knew there was a high demand for quality wine in Australia, but we'd seen a lot of online wine retailers trying to start up their own businesses, with little success," Luke says. "There were a few carcasses on the road. So we knew the demand was there, but needed to devise a model that could actually work. We knew that just having a cool name or trying to sell the same wine in a different way wasn't going to compete with the market power that Coles and Woolworths have.

"So we were sitting around, and there was a lot of noise around how we thought Coles and Woolworths dealt with their suppliers by wielding their market power and sheer size. We wanted to do things differently, and asked, 'How can we be nice to the winemakers? What is the opposite >





of what Coles and Woolworths are doing? What does that look like and could it work? That's how we came up with our model."

Naked Wines gives the winemaker the autonomy and the freedom to create the wines that they are personally interested in making. "Wine is a very capital-intensive process, and most winemakers don't have much capital of their own," Luke explains. "So what we realised was that we could be nice to the winemakers by helping them to fund their own projects."

"We discovered that we could actually produce wine at a competitive cost by removing a lot of sales and marketing expenses, cutting out all the middle men and all the other things that you can't taste. By focusing the investment purely on the juice in the bottle, we ended up with a product that was higher quality, but no more expensive, than what Coles and Woolworths were offering. Essentially, this is why the company is called Naked Wines. It's nothing to do with clean skins, it refers to stripping the process back to being focused on the wine."

Luke says he was not aware of any similar business models in existence at the time, and therefore this represented a real opportunity in the wine retail market. The revolution was ready to start. He went on a tour to scope out its viability and to connect with winemakers who might benefit from getting involved. "To every one of them, it was a completely new concept," he notes.

"There were basically three kinds of response. The first type said, 'That sounds too good to be true. Thanks, but see you later'. The second was, 'That sounds too good to be true. If you get it to work, come back and talk to us'. And then the third said, 'That sounds too good to be true. What have we got to lose? Let's do this thing.'"

With a high-quality and exclusive product now secure, the next step was to get the general public on board and initiate the crowdfunding component. It didn't

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take long before customers started signing up to become subscribers (known as 'Angels') seeking to access affordable drops direct from the people who had lovingly crafted them. At the start of 2015, Naked Wines had more than 33,000 Angels already signed up, with thousands more placed on a waiting list.

"The reason for the company's success is that the wine just simply tastes better than anything else at that price point. I believe that this is because we empower winemakers to make the wine they dream about making. In most cases, they're usually told what to make regardless of their own interests; we give them the opportunity to develop these amazing ideas they have been

thinking about but weren't able to develop further.

"But then we say to them, 'There's just one thing: you're accountable. You'll have 30,000 Angels able to communicate with you directly to tell you what they think of the wine'. That is probably the biggest revolution that we've achieved. We've really connected the winemakers with the consumers in a way that hasn't been done before in any business category in Australia."

"In some ways, the Naked Wines platform is like a dating agency. We basically facilitate the relationship between the winemaker and the customer. We don't tell people they should shop with a particular winemaker or brand; what we do is



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put the winemaker on the platform and enable them to connect. In fact, it's generally the Angels who recommend the winemakers to other Angels, rather than us doing it.

"We have an innovative model. But the thing that we're committed to is making excellent-quality, delicious wine. This happens because we're all about the winemakers and not about brands, trends, or unreasonable margins. That is why I think the business is working."

The term 'Angels' is often used in the investment and equity world; however, its origins come from Broadway, when people interested in a particular show would finance the medium for it to go ahead. That concept

resonated with Luke and the Naked Wines team because, in essence, the customers are actually the investors.

Naked Wines hasn't had to spend a cent on traditional advertising to market its brand, thanks to its unique approach. Around 30 to 40 per cent of clients come via word of mouth and personal recommendations, while 60 to 70 per cent are from partnerships with other businesses. Often, companies have a segment in their database that they would like to reward or shift the behaviours of, so Naked Wines collaborates with them and gives them vouchers to encourage that.

According to Luke, the company's biggest barrier has been not anticipating the huge level of growth that has occurred over such a short time. "There have been a

lot of lessons learned," Luke says. "When we first launched, in those first six months that we existed, all I thought about was viability. I can remember thinking a week before we launched, 'Oh my god, we better make sure this works'."

"Then four months later, we were saying, 'Oh my god, we don't have enough wine'. So the biggest challenge has probably been that we didn't predict or prepare enough for the level or speed of success."

"While trying to manage the various challenges of a business that's growing very fast, you find that you have to stay true to the original ethos of the business. I think we are doing a good job of that. There have been times when we've had to stop and say, 'Right. We could go down this path, but if we do, it won't be true to the original model. But if we don't, then we run the risk of sustainability', and so on."

"We've actually had to evolve what the business is to make sure that we stay true to what the original principle was and keep growing, rather than change the original principle. If I had my time over again, I would have planned to grow. I would have planned for survival and I would have planned for success—originally, I only planned for survival."

The future of Naked Wines looks bright as it continues to work on empowering the winemaker and connecting them with the consumer. Luke believes the demand from Australia's wine-drinking community is there. There is a desire for a high-quality product at a lower price point that supports the 'little people' rather than the giant corporations.

"The consumer wants to have more of an understanding about the provenance of the product, and they know that it's not just a commodity. The wine they buy from us has the benefits of having that love and care put into it by the local winemakers. The breakdown of the market monopolisation needs to happen, as much for the long-term future of the wine industry as anything else." •

