



Cultivating Direct to Consumer Sales for Wineries

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A Mixed Forecast

For U.S. wineries, these are times of change with both challenges and opportunities.

The current economic downturn, and belt-tightening by consumers, has dampened sales for some wineries this year. For the affected wineries, tasting room traffic is lighter, and the shoppers that are going to tasting rooms aren't necessarily buying as much this year. These wineries have had to rely more on the tighter margin sales through wholesale channels. Commenting on this in a recent *San Luis Obispo Tribune* article¹, Gary Eberle, owner of Eberle Winery, notes that "for the first time since I opened my tasting room, my sales will be below the previous year—this year we will sell about 1,000 more cases wholesale, and 1,000 less from the tasting room."

The overall consumer demand trend for wine consumption still seems healthy relative to other retail sectors. Commenting on U.S., *Wine Spectator* notes "Americans are on pace to drink more wine in 2008 than ever before, but this year's expected growth of 1.5 percent represents the industry's smallest increase since 2001, the last time the U.S. economy was in a recession². Nevertheless, retail sales of wine within the United States will surpass \$25 billion for the first time this year, and set an all-time high of 306 million cases purchased.²"

Surprisingly, higher price point wines in particular are selling best, as evidenced by dollar sales volumes substantially outpacing case sales. Consumers are still purchasing wine, but the economic conditions have led them to change the channels in which they purchase it. For instance, more shoppers may go online to make purchases rather than traveling to a liquor store, winery, or restaurant. A Nielsen Homescan survey at the end of 2007 showed that "consumers indicated that they planned to reduce spending, combine errands/trips to conserve gas, dine out less and shop more online.³"

Fortunately for wineries, legislative rulings in recent years have opened the door for them to capitalize on the shift in consumer wine shopping to online channels. Specifically, the landmark ruling in *Granholm v. Heald* in 2005 paved the way for wineries to ship direct to consumers in other states. More recent rulings such as the U.S. District Court for the Eastern District of Michigan's ruling that Michigan laws banning direct-to-consumer wine shipments by out-of-state retailers are unconstitutional, have further bolstered winery prospects for online selling at this critical time. Clearly the online direct to consumer winery sales movement is making significant headway and the future looks bright as the continued lobbying efforts of organizations such as the Coalition for Free Trade, and the Free The Grapes initiative, raze the long-standing barriers to interstate wine retail sales, even in the face of strong opposition by the Wine & Spirit Wholesalers of America.

Indeed, the wineries that are doing the best in the current economy are those that have strong direct to consumer (DTC) programs that integrate and encompass the tasting room, wine club, and ecommerce sales. Even those already participating in the DTC channel see room for program optimization and growth. A recent survey conducted by *Wine Business* revealed that "wineries that are selling more than a third of their cases through DTC channels last year expect to increase this to almost half of all case sales within five years.⁴" Clearly there is a imperative for wineries to start thinking like retailers and implementing multi-channel retail management systems that allow them to better manage their operations, marketing, point of sale and ecommerce programs.

Cultivating Growth

In order to bolster tasting room traffic, wine club memberships and ecommerce sales, while lessening reliance on margin-tight wholesale channels, wineries need to establish strong brand differentiation and fully take advantage of "Web 2.0" social and cross-channel shopping trends. Wineries also need to embrace retail technology that will help them to minimize operational costs, manage multiple channels, and efficiently scale their business as it grows through DTC channels.

Differentiation

The huge potential for online wine sales has been firmly established by now, with e-tailers like Wine.com doing so well that even Internet mega retailers like Amazon want a piece of ecommerce wine sales.

The flip side to the great opportunity in ecommerce wine sales is that competition is fierce and the market has been flooded with cheap cookie cutter web stores. Visit virtually any 20 web sites and you will quickly get the picture. These

¹ "Not all gloom and doom for wineries here" *San Luis Obispo Tribune*, by Janis Switzer, October 17, 2008.

² "U.S. Wine Consumption Grows for a Record 15th Consecutive Year, but Momentum Slows," *Wine Spectator*, October 22, 2008

³ "Retail Sales Report: Wine Sales Still Thriving" *Wine Business Monthly*, by Mary-Colleen Tinney, June 15, 2008.

⁴ "2008 Consumer Direct Sales Survey Report" *Wine Business Insider*, by Lesley Berglund, Mary-Colleen Tinney, July 2, 2008.

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“me too” sites often share the same templates, and fail to establish any sort of engaging or unique consumer shopping experience.

In order to be truly successful in this sea of sameness, wineries need to be creative and invest in the development of rich site content that will engage and captivate shoppers. The ability to fully customize the winery’s web site design and capabilities is key to establishing a web “atmosphere” that truly reflects the uniqueness and ambiance of the winery and connecting with shoppers.

Beyond the branding and “ambiance” of the web site, it is also important to create a high performance site that helps shoppers to quickly find what they are looking for. For instance, dynamic “no refresh” product drill-down/search capabilities (by wine attributes such as red, white, sparkling, vintage, region, appellation, varietal, etc..) and “bread crumb” navigation makes it easier for shoppers to more easily navigate and find what they want, increasing conversions and average order size while reducing cart abandonment.

Service excellence is also an important way for wineries to delight customers. A retail system that automates critical order to fulfillment processes is crucial to keeping costs down and customer satisfaction up. The system must be scalable so that it can handle a high volume of customer orders efficiently, correctly, and in a timely manner.

Additionally, wineries need to provide a consistent shopping experience whether the customer is in the tasting room, calling over the phone, at an event, or on the Web.

Web 2.0 and Social Shopping

Rather than being reflective of any fundamental change in the underlying technology of the Web, “Web 2.0” can be said to refer more to the focus of web design and usage to further greater creativity, collaboration, community-building and information exchange amongst Web users. The flood of social networking sites (ex. FaceBook, LinkedIn), wikis (ex. WikiPedia), blogs (ex. carpevino.wordpress.com) and video sharing sites (ex. YouTube) personify the Web 2.0 revolution.

On the retail side, consumers actively engage in “social shopping” by reading and participating in product reviews on retailer’s web sites and blogs. Consumer’s often trust and prefer other consumer’s opinions to the retailer’s (or even that of industry wine ratings such as Wine Enthusiast, Wine Spectator, or Robert Parker). Realizing this, wineries need to be sure that any retail management system they use can support customer reviews, rich media, blogs, and centralized management of sales through an array of online e-marketplaces such as Amazon and comparison shopping engines like Snooth.com.

Although not strictly a Web 2.0 element, search engine optimization is also of critical importance to any wine retailer looking to maximize its ecommerce sales. The winery’s web site must be search engine friendly to ensure visibility to shopper’s searching for wine online. Any ecommerce system that the retailer chooses should include SEO friendly product links, structure, and other elements should be easily indexed by Google and other search engines.

Cross-Channel Shopping

There is an increasing interconnectedness between sales channels. Even consumer’s planning to go to a brick and mortar location to make a purchase go online first to conduct research. In a recent holiday shopping survey by the e-tailing group, 72% of respondents indicated that they planned to research products online prior to purchasing⁵. Consumer’s expect that retailers can “connect the dots” between their purchases across channels. For instance a customer might want to place an order online, then pick it up at a store, or buy a product online and be able to return the product at a brick and mortar retail location. This means that wineries need to be able to deploy a closed loop retail system that provides a single consistent view of their customers, buying behavior, and inventory from the point of sale in their tasting room, to their call center, to their web store or online marketplaces.

Technology Decisions

The choice of a retail management system also involves choices as to the software delivery platform. Will it be traditionally installed “on-premise” software or a web-based Software as a Service (SaaS) or On-Demand application.

In recent years, the performance and security advancements in web-based systems, as well as their relatively rapid ROI and low IT support costs, have made them a more affordable and attractive option for retailers. Rather than investing in hardware, software and IT support, the retailer can cost effectively outsource these functions and maintain focus on its

⁵ “Consumers Embrace the Internet for Shopping More than Ever Given its Ability to Deliver Convenience, Value and Time Savings,” Art Technology Group, Inc. October 14, 2008.

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core competency. Web-based software that is based on a transactional pricing model also has a built-in incentive for the software provider to continuously enhance its capabilities to reflect retailing best practices.

Whichever platform is chosen, it should include best in class automation and system integration to eliminate redundant, manual, and error prone processes in order to minimize operational costs and deliver timely, high quality customer service. For instance, having to manually enter web orders through the point of sale, and then into a shipping program is not only inefficient, it provides multiple potential points of failure in terms of order accuracy and PCI security.

Being able to obtain timely and relevant operational and sales performance metrics across channels is also key to successfully growing the DTC sales. In a recent *Wine Business Monthly* report², it was noted that “wineries who struggle for DTC are notoriously bad about proactively tracking their DTC program—Successful DTC programs are driven by metrics.”

Centralization of core data is also important to security, efficiency and organizational effectiveness. Having all departments operate off of the same product, inventory, sales and customer data in real-time enhances decision making and customer service. The web site isn't selling inventory that has been sold in the tasting room, and the marketing department knows that Joe Customer prefers red wines, particularly your Cabernet, when they are crafting promotions.

The Roots of Success

Smart wineries will invest today in retail systems that will help them to differentiate themselves and establish their brand consistently and pervasively across channels over the next critical growth cycle years in DTC sales. A system that can facilitate efficient management of a multitude of online channels is especially important since sales through e-marketplaces and comparison shopping engines are rapidly growing, particularly with Amazon joining the market. Furthermore, systems need to be integrated, from winery point of sale to web store to call-center to wine club to online marketplaces or events, in order to deliver a seamless customer experience as well as to provide winery marketers with the actionable intelligence they need to make more effective promotions and channel management decisions.

An investment in a high performance retail management system will provide the winery with a competitive advantage it can use to weather the current economic storm and emerge from it ideally positioned to fully exploit lucrative DTC channel wine sales thereafter.