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Are Luxury Wines Commoditizing? What builds competitive advantage?

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Over 65,000 wine SKUs¹ are currently sold on the U.S. market. Already undeniably fragmented, some experts say the wine industry is now becoming commoditized. In repositioning a winery brand for long-term, sustainable competitive advantage, the proliferation of new brands and consequent dynamics need to be considered.

Compounding the notion of fragmentation is the “80/20 principle”. 75% of the U.S. wine market is accounted for by 100 brands, according to recent IRI research. This leaves just 25% of the U.S. wine market as the battle ground for the other tens of thousands of wine brands. “And the number of new wine brands entering the market continues to grow at a faster rate every year!” says Thomas McDevitt, VP Strategic Planning for Southern Wines & Spirits. He points out that five years ago 42 new wines entered the market, compared with 234 launched in 2006.

An oft-cited outcome of fiercely competitive markets, commoditization can be defined as consumer interchangeability of brands that is price point independent. Simply put, if a consumer’s wine of choice is not available, they will buy something else. This is even more prevalent in the high-end categories (above \$15/bottle MSRP) where consumers like to experiment. Counterintuitive perhaps, but most wine consumer research conducted by companies such as Constellation and Gallo points to the dramatic lack of brand loyalty in the upper price ranges.

Whether or not we agree that commoditization is affecting high-end wineries, in order to survive in a highly competitive environment, even the strongest organizations need to constantly reassess brand positioning strength and refine their *Go to Market* Plan.

What builds sustainable Competitive Advantage?

In order to be sustainable, a winery’s market strategy (your approach to developing and delivering product to customers) must be centered on opportunity and relevant customer need. You also must build on a clear advantage in the market. This differentiation can relate to product quality and style, cost structure, business skill set, and often in this industry, to unique family values.

¹ SKU = Shop Keeping Units

To accomplish this, winery owners need to understand their market position and put resources behind strengthening their competitive advantage. For many this simply involves being faithful to family values: spotlighting the distinctive elements behind your brand by reinforcing all emotional and technical brand associations. These values can extend to your family's luxury estate holdings, love of wildlife, or even affection for dogs.

One way to think about building competitive advantage is to compare strategies deployed by consistently successful brands. When we poll winery CEOs in our network "which wines are considered pull brands and are enduringly strong?" the same names kept coming up:

1. Jordan Winery
2. Harlan Estate
3. Quintessa
4. Caymus Vineyards
5. Silver Oak Cellars

Then you ask yourself, what do these five wineries have in common? The answer is all five brands have *strong brand and marketing practices*.

- Personality and values are connected and leveraged through brilliant marketing
- Strong brand equity - independent of scores, drives price elasticity
- Impeccable timing - building brand velocity, price and volume
- Unwavering commitment to simple marketing mix concepts – focus, position, product, promotion, and distribution
- Constant innovation - avoiding complacency

Most importantly, each has tied their market strategies directly to their brand's competitive advantage.

What moves a brand from *Push to Pull*?

Beyond applying these strategies with more discipline, many of us wonder how we can develop a "pull" brand. What can we learn from brands such as Chappellet, Joseph Phelps and Schramsberg that have successfully moved from *Push to Pull*? They have taken meaningful steps that create demand for their brands and have demonstrated at least a 20-30%, across-the-board price increase within a five-year period; were able to move from "middle of the herd" to "top of the heap" in their respective categories; and eliminate a dependency on broad brush discounting and promotions to move volume.



These wineries accomplished this by committing to seven key principles.

1. Articulate an unambiguous Go to Market Strategy.
2. Establish wine quality and style thru a 'halo wine'.
3. Invest in professional brand reengineering - tied to a realistic positioning strategy.
4. Build brand first - leverage brand assets (authentically), before volume.
5. Time price increases carefully – based on market & brand strength.
6. Align resources against where you will get most returns.
7. Take some risk and try out some new ideas.

What market strategies should winery CEOs consider?

“The fear of ‘wine as a commodity’ and brand proliferation is forcing us to get better at telling our stories”, states Jean Arnold-Sessions, President of Hanzell Vineyards. By consistently telling your family story across all distribution channels you can have real influence on your target market’s perception of your brand.

Winery leadership needs to consider industry challenges and opportunities in defining a realistic *Go To Market Plan*. As part of the changing industry landscape, you should reevaluate your strategy in five key areas:

1. **Claim your playground – you can only *Win at the Margins*.** Choose to be either a large player (above \$500 million in revenues) or a small player (under \$60 million in revenues). Mid-sized wine companies are being marginalized; their margins are being hurt by having to compete in too many playgrounds.
 - a. Large = mass consumer, lower price, high volume boxes
 - b. Small = premium, highly targeted, customer experience, specialty retail
2. **Develop and focus your brand by creating better customer experiences.**
 - a. Differentiate based on:
 - i. Region
 - ii. Personality and values
 - iii. Use of technology
 - b. Established brands can leverage staying power.
 - i. What's new is what's old.
 - ii. There's value in tradition, substance, authenticity.
 - c. Know your customer needs and category trends.
 - i. Focus even more narrowly (product or channel or customer segment).
 - ii. Get better access to market data in all your channels.
3. **Gain more effective distribution; a fundamental problem for small wineries**
 - a. Define your national distribution strategy, and then focus on developing strong relationships with like-minded retailers.



- b. Communicate with and manage your strategy with your wholesalers.
- c. Evolve to new wholesalers that fit your strategy: those focused on market niches; low margin, pass-through distributors; direct to trade sales strategies; cooperative, distributed inventories; distribution relationships with a focus on customer service.

4. Build a more effective team and professionalize your talent

- a. Read article authored by Vicky Farrow in this newsletter: [“Your role as CEO: Mastering the Discipline of Execution”](#)

5. Invest in technology on both the supply and demand side of your business

- a. Database technology to manage 1:1 customer relationships.
- b. Software to manage your supply chain.
- c. Depletion data management systems to manage your trade and distributor relationships.

Planning to build competitive advantage should include thorough discussions on the changing industry landscape. You will need to consider impacts on distribution dynamics, market opportunity, competition and how to navigate risk during a critical brand transition. For that reason, you may find it beneficial to bring in outside advisors with a broad wine industry perspective. They can ask the tough questions which ensure your *Go To Market* Plan is grounded in reality and supports your brand and profitability goals. That’s how Scion can help. At Scion we work alongside wine business leaders with an approach that guides you through your planning process to produce more effective *Go To Market* strategies that make the most sense for your family business.

