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Are you selling 1,000 cases online?

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It is 2:00 am. Do you know how much is selling thru your e-Commerce channel?

Are you selling 1,000 cases of wine thru e-Business? If not, it's time to tune up your e-commerce sales engine! You may be behind the times.

This year at least 75 Californian wineries are selling over \$500,000 or 1,000 cases of wine on line¹. While 40 of these are highly allocated wineries using the internet as an order fulfillment tool, at least 35 others are solidly selling thru this highly profitable channel.

These top 35 wineries have several things in common:

1. A loyal base of direct customers - most have wine clubs exceeding 2,000 members;
2. Over 60% of online sales are from club members reordering or responding to offers;
3. All have at least a half-time person allocated to managing the channel;
4. Their websites are *not* among top-ranked, user friendly, shopping sites;
5. Both the winery and their consumers have an online history (at least a 5 year learning curve from the launch of e-Commerce).

Laurent Sarazin, Sales and Marketing Director, [Schramsberg Vineyards](#) & [J. Davies Vineyards](#), gave us an in-depth look at his successful e-Commerce program. Sarazin says, "This is our second most profitable channel after our wine club and it is growing 50% each year with only half a person managing it!"

While many online innovators are actually selling wine, most winery CEOs are still pondering this digital medium. Weaned on the three tier distribution system, wine industry leadership has lacked familiarity with the internet and consequently has been slow to adapt. Albeit later than the rest of the world, the Age of the Internet has finally descended upon the wine industry.

Aside from being the fastest growing channel for wine sales, the internet rewards early adopters with unanticipated benefits. To start, properly executed e-commerce sales develop your brand since you are communicating regularly with your most important consumers. It also enables real time testing of new product pricing and promotion. Even wholesalers who may see e-commerce as the 'evil competition' have evidence:

¹ Based on Inertia Beverage Group and Scion Advisors client perspectives.

consumers with direct ties to your winery become brand ambassadors when visiting restaurants and retailers in their local markets.

Why is e-Commerce so important to wineries?

How about a 75% Gross profit margin? E-Commerce can be 3 times more profitable than your wholesale distribution channel. Consider 1,000 cases of \$30/bottle (MSRP) wine sold thru a national channel with a 50% margin, earning \$90,000. Reconsider the same 1,000 cases sold online, earning \$270,000.

Wineries who are succeeding over the internet tell you to expect breathtaking growth. Schramsberg has seen e-Commerce sales multiply 24 times in 6 years. However, Sarazin warns that the 'build up process' should not be underestimated. There is a serious learning curve for the wine consumer; they initially buy just a couple of bottles and if all goes well they increase their order frequency and quantity.

Imagine two unique transactions per day on your e-commerce store at an order value of \$178 per purchase. Over the course of a year, this adds up to over 720 customers and more than \$120,000 in online sales. On average, these customers will purchase three more times over two years at that same price, generating another \$363,000. "And this is not even ambitious", says Laurent Sarazin. "We now get nine orders per day, every day, all year round."

There has been a ripple effect for wineries that are successfully selling on the internet; when you know your strategy is working with consumers, you are able to overcome distribution objections and help them gain perspective. Laurent Sarazin claims, "Over the last 5 years both our internet & wholesale business has exploded for us – especially in markets where both wholesale and internet sales are strong. Having this experience makes us better brand stewards and better partners with distributors and trade." Furthermore, wineries with well-thought-through product strategies are more confident and drive stronger overall performance for their business.

Five key success factors: How to ensure success in this channel

1. Find an e-Business/direct sales expert who can demonstrate results.
2. Define a comprehensive direct marketing strategy.
3. Measure the success of your efforts through clear metrics.
4. Build a comprehensive e-Commerce solution.
5. Deliver your product seamlessly.



1. Find an e-Business/direct sales expert who can demonstrate results.

Jackie Downer, CEO of [Clos Pegase](#), observes, “Someone has to pay attention to this (e-Commerce) sales channel; when you feed it; it delivers immediately. When you don’t pay attention to, it simply goes away.” A common misperception is that by simply putting up an online store you enable sales. Your website launch does not guarantee that customer traffic will follow. In a way this is akin to building a tasting room and not executing on programs to encourage visitation.

This talented e-Business manager should be able to run all off-premise direct sales for your club and telemarketing efforts, and should be compensated from \$65,000 to \$110,000 per year depending on your size, their experience, and how much responsibility you give them. E-Business sales are very different from tasting room sales due to the need to plan campaigns, measure results, and build a customer knowledgebase. It requires a special expertise to create intimacy with a virtual customer.

2. Define a comprehensive direct marketing strategy.

Consider that your website may be viewed more than any other medium and is the great equalizer for your brand. It is the way your message can proliferate. This sales channel is an integral part of your overall winery brand positioning, so your e-Commerce strategy should tie closely with your PR, traditional marketing, club program, release schedules, and holiday events.

Your comprehensive direct marketing plan should include:

- a. *Detailed Profit & Loss budget (P&L)* to help you and your staff understand and track the costs of doing business online.
- b. *Detailed communication strategy.* Frequent, well-thought-out ‘special offers’ ensure your target online consumers will buy directly from you. Reach out to your target group every three weeks with a communication that is interesting and relevant; if you are building an emotional connection, consumers will respond. Sarazin adds, “This requires discipline, focus, common sense and a good dashboard to assess the results of each customer campaign.”
- c. *Strategies to convert new consumers* who have never tasted your wine, or purchased it online.
- d. *Techniques, such as e-Newsletters and involvement in wine blogs, which leverage emotional marketing.* Well written, compelling winery newsletters that tell an authentic story get a 50% e-Newsletter ‘read’ rate – much higher than other industries.



3. Measure the success of your efforts through clear metrics.

First, you need a dashboard to know how you are doing and what is driving the success of your online program. Charted below in **Figure 1** is Inertia Beverage Group's (Inertia) best practices planning template, with key performance indicators to measure progress.

Second, you need to benchmark yourself against industry averages. The columns at the right represent monthly winery benchmarks derived from Inertia's client performance in this channel. In the online world, size matters, so conversion figures differ for small* (under 2000 members) and large** (above 3,000 members) wine clubs. Finally, e-Commerce figures start looking a lot different when the winery begins recruiting from the web.

BEST PRACTICES PLANNING TEMPLATE		Inertia Beverage Group Benchmarks		
Tasting Room Objectives	Metric	Small*	Large**	Goal
Attract Winery Guests	# of Guests per year	2700	4500	20% growth annually
Collect Contact Info	# of Contacts per year	810	1620	Convert 30% of visitors to online mailing list
Wine Club Objectives	Metric			
Grow predictable revenue stream	Club membership per year	1367	3254	25% annual growth
Avg \$ per Shipment	Increase annually	79	79	2% ave/yr increase in MSRP
Total Cases Sold Annually (Reorders)	Increase through club growth	1,172	1,971	
Total \$\$ Sold Annually	\$\$ of wine club sales to members	\$542,953	\$770,993	5% increase per quarter (club members or \$ per order)
Repeat Online Sales to Club	% of wine sold online to members	15%	15%	Monthly average if stimulated by e-blast
e-Commerce Objectives	Metric			
e-Mail blasts	Two per month	2	2	
Sell Wine	Online Wine Sales per month	\$21,660	\$57,455	Increase by 10% each month
	Online case sales per month	45	192	
Increase # of Orders	# Online Orders per month	94	249	Increase by 10% each month
Increase Avg. \$\$ per Order	Avg. \$\$ Order per month	\$ 230	\$ 230	Increase by 5% annually
Increase Avg. \$\$ per bottle	Avg. \$\$ bottle per month	\$ 40	\$ 25	
Attract Online Visitors	# of Visitors per month	9,000	18,000	Ave 300 unique visits per day
Collect Contact Info	# of New Contacts	15	45	Average new sign-ups through Search Engine Optimization
	Total Contacts	312	1264	
Convert Contacts to Customers	# of New Customers	47	100	76% 'contacts to customers' generated by Tasting Room
	Total Customers	14,358	37,455	
Convert Visitors to Wine Club	# Online Club Signups per month	2	4	

Figure 1 – Inertia's best practices planning template and wine industry benchmarks



4. Build a comprehensive e-Commerce solution

Wineries building robust e-Commerce sales know this channel functions as a dynamic, integrated system of tools and services working to build brand relationships around happy customers. The good news is there are many e-Commerce tools and services today; they are all evolving at a fast rate and are much more affordable. Do your research and tailor an integrated, effective solution that really works - you have only one or two chances to win and keep your online customers.

- a. *A store front* (simple, robust website and shopping cart) that integrates 100% with the backend of your business (compliant, error-free shipping). The shopping cart needs to have a sensitive path to purchase since the number of clicks it takes to order is inversely proportional to the sale. A strong shopping cart can be used for recording phone orders as well, allowing you to track everything through one database;
- b. *An email service* that manages targeted marketing campaigns and incorporates strong CRM functionality attached to your online store;
- c. *A dashboard* that provides you with a full picture of your customers' purchasing patterns and the ability to address their customer service requirements;
- d. *A distribution partner* who manages your shipping logistics from order handoff through customer receipt

5. Deliver your product seamlessly.

- a. *Advocate excellent customer service.* Regardless of the sales medium, consumers still respond to great customer service. Your methods can be electronically driven, but the planning and structure need to be there so that you can maximize each unique relationship with impeccable execution. You can measure customer service success by tracking the number of repeat orders per customer, and the decrease in number of complaints.

Sarazin recommends, "Systematically take the high road with customers, even when they are asking for the ridiculous. When people ask for something, be sensitive to it. Profoundly listen to your customer – it pays off in the end."

- b. *Overcome online product shipping hurdles.* Understanding how wine shipping impacts your business – it is expensive and cumbersome - should be core to your direct mailing strategy. Wineries are deploying innovative tactics such as the use of weighted averages, shipping discounts, pricing strategies, collateral reinforcement in packaging, and Third Party Logistics companies (3PL).



- c. *Manage compliance.* New compliance rules have added a layer of confusion which can quickly lead to customer dissatisfaction. Imagine the consumer purchase experience: not able to buy wine on one winery website, yet permitted on another; wanting to buy three cases of their favorite wine for a party, but convoluted regulations restricting them to only two. Even more confusing, non-winery online wine retailers have a different set of rules. This regulatory situation is not a friend of the winery; however, our ultimate success as individual wine businesses is dependent on us managing compliance.

Conclusion

As an industry, we are still in the early days of benefiting from e-Business. Because our most loyal customers want to buy directly from our wineries, this sales channel has the potential to grow into a very strong and healthy source of profits. With a Millennial generation of consumers fueling the future of our industry, we need to find ways to accommodate their purchasing habits which currently largely skew to online. Fundamentally, we are no longer constrained by our winery walls or even by the distribution bottleneck that constricts our ability to reach people who love our wine. We are at the beginning of a new era. Early adopters have a competitive advantage due to the learning curve and are demonstrating the ripple effect of their e-Commerce strategy throughout their overall business. How long will it take for you to tune your e-Commerce engine?

Planning to build competitive advantage in your direct to consumer channel should include thorough discussions about your current brand strategy and how it fits in the changing marketplace. Before you develop a plan, you will need to factor in realistic market opportunity, competitive forces, staffing challenges and how to navigate risk during execution. For that reason, you may find it beneficial to bring in outside advisors with a broad wine industry perspective and real understanding of how wineries are successfully growing this important sales channel. 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 strategies that make the most sense for your family business.

