

# **Direct to Consumer in Napa Valley Wineries**

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# Special Thanks

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Participating Wineries

Stanford Graduate School of Business  
Leadership Development Platform

# Agenda

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- Executive Summary
  - Methodology
  - Direct to Consumer Promotion Strategies
  - Direct to Consumer Distribution Strategies
  - Direct to Consumer Lessons Learned
  - Other Industries' Practices
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# Executive Summary

**Project Objective: To present different strategies for direct to consumer sales for small to medium-sized wineries in the Napa Valley region**

- Start with a plan focused on your brand
  - What is your brand identity
  - Who are your target consumers
  - What is the message you want to communicate to your consumers
- Evaluate direct to consumer strategies in the context of your brand essence
- Implement key success factors
  - Infrastructure to enhance communication with customers
  - Well executed direct to consumer strategy
    - Direct contact and message consistency
    - Tracking and building relationships at an individual level
    - Well trained staff

# Methodology

- Choice of Wineries
  - Initial list chosen to provide a representative sample of Napa Valley wineries
  - MKF / Deborah Steinthal selected the wineries
- Qualitative Interview
  - One to two hour interview discussing the general issues facing the wineries in the direct to consumer area
- Quantitative Survey
  - More specific questions about the wineries to supplement the qualitative interview

# Methodology – Survey Participants

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- Wineries for which consumer direct is a core business strategy
- Variation among a number of dimensions
  - Price
  - Location
  - Distribution Strategy
- Size range from 10,000 to 200,000 cases

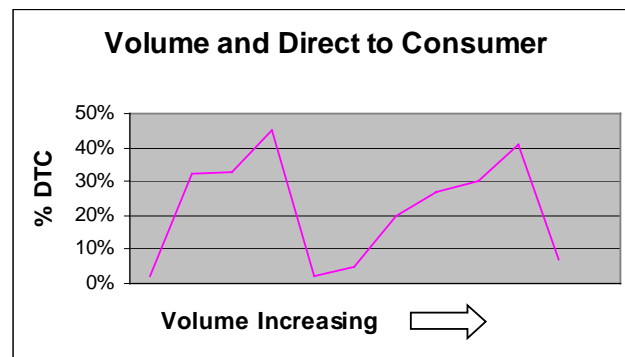
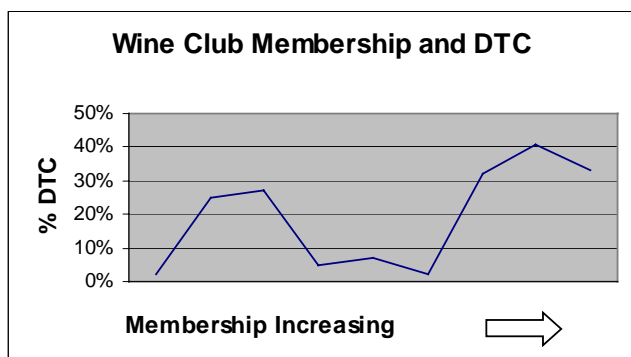
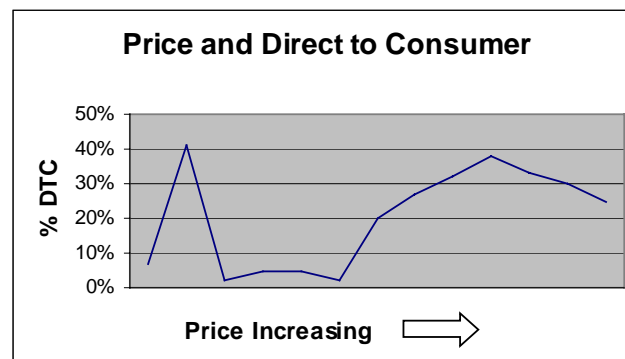
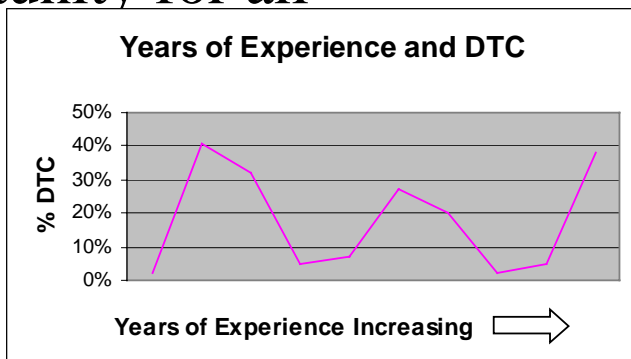
# Direct to Consumer

**Timing: Now is the ideal time for small wineries to focus more on direct to consumer sales**

- Profitability
- Can be synergistic with wholesale and restaurant businesses
- Changes in legal environment
  - Access to more consumers than ever before
- Competition: **Intense**
  - Average American wine consumer perceives little differentiation
  - More wineries are competing in this channel
  - Competition from other beverage choices

# Direct to Consumer Landscape

No single factor determines success – Direct to Consumer is opportunity for all



# Direct to Consumer Promotion Strategy

- Brand Building
- Customer Service
- Data Management
- Restaurants
- Public Relations
- Off-site Events

# Aligning the Story and the Brand

## Recurring Themes

- Perceived Scarcity
  - Wine clubs: not always optimal to project this image
    - Allocation – how does it reflect the wineries overall strategy
    - Methodology behind distribution should reflect brand strategy
- Family Story
  - Focus more on connection with the people behind the wine
  - Owners make an effort to attend trade and marketing events
- Many stories share attributes, but the true distinguishing factor is how the story aligns with the wineries actions
  - Does the experience you provide reflect the image your winery portrays

# Effective Use of Brand in Direct to Consumer Sales

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- Specialty offerings: direct to consumer only
  - Align this with the product strategy
- Greater visibility to customer
  - Can enhance marketing efforts
    - Increase brand loyalty
    - Leverage brands across winery
    - Greater control over customer experience

# Customer Service

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- Does it matter?
  - Yes, huge cost savings
- What does it mean to be effective?
  - Tasting room sign-up rate
  - Wine Club retention rate
  - Customer Satisfaction surveys/cards
- How do you measure returns on investment?
  - Historical rates
  - Industry Comparisons
    - Wine Club Retention: 18 month industry average

# Challenges Resulting from Lack of Understanding of the Customer

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- Poor response rates on direct mailings
  - Lists not matched with true potential customers
- Reaching customers to obtain growth
- Channel conflict
  - Discounts hurt retail sales
- The more successful wineries:
  - Ask customers preferred medium for communications
  - Track and profile customers who buy direct
  - Identify and develop relationships to cross promote wines
  - Interactions with customer consistently align with overall brand strategy

# Understanding the Customer

- Understanding the customer leads to better choices in cross selling opportunities
  - Know where else your current customers or desired customers shop
  - Successful cross-sellers in the survey recognized that their customers also shopped at particular stores or used particular products and used that information to develop win- win marketing partnerships
- Overall brand strategy should include an understanding of the customer profile
- Yellow Tail: execute strategy by knowing its target customer – “fun wines”
  - Who are your target customers and what is your strategy

# Understanding the Customer

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- 90% of wineries reported sending out direct mailings
    - Most successful with in-house lists (~5 to 15% response)
    - Transition to email
      - Less expensive
      - However, not all customers prefer this method of contact
      - Issues with “spam” filtering
    - Segmenting and tracking customers on the lists essential for high returns on mailing expenses
    - Of those with direct mailings, almost all did it on at least an annual basis
  - Do direct mailings align with the brand strategy
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# Data Management

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## Need to Invest

- Currently wide variation in industry
  - Also, wide frustration--#1 cited unmet need in survey
  - Quality not just determined by size
    - Home Grown vs. Purchased System
- Main Challenges
  - System Integration
  - Outdated systems

# Data Management

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- Best Practices
  - Integrated System
  - Searchable by many dimensions
  - Web based, multiple access
  - POS tracking
  
- Key Performance Indicators
  - Visibility of top customers
  - Targeted mailings
  - Improved conversion rates

# Restaurants

## A Tool for Building the Brand

- Fine restaurants - people come to restaurant for experience and to learn about wine
  - Put contact information on the bottle and cork
  - Increases traffic to tasting room
  - An opportunity in which people actually pay to be taught how to enjoy the product
  - Restaurants highly sensitive to economy
- Most wineries noted that restaurants are important for brand development and recognition
- Direct to consumer can offer reinforcement of brand as well
  - Caution on defining the brand via the channel

# Public Relations

## An Integral Part of Brand Development

- Reliance of customers on third party recommendations
  - Wine Spectator, other press
- Good reviews in Wine Spectator helpful, but third party endorsements and mentions in articles more helpful
- Lifestyle articles in non-trade press (wide circulation) help draw consumers to brand
- Public relations firms from outside the industry, while the minority reported using them, can offer a distinct and fresh perspective to the winery

# Off-Site Events

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## Converting the Sale

- Drive Tasting Room Traffic
- Drive Web Traffic
- Developing New Club Members

# Marketing Partnerships

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## **Build Brand Equity and Win New Customers**

- Target audience
- Defined goals
- Clothiers, car dealerships, restaurants, other wineries
- Success is a function of reciprocal effort

# Direct to Consumer Distribution Strategies

- Wine Clubs
- Tasting Rooms
- eCommerce
- Fax / Phone

# Wine Clubs Survey Results

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- Represent significant aspect of direct to consumer strategies
  - Approx. 70% of wineries surveyed have club
  - Club represents up to 25% of total revenue
  - Club represents between 30% and 65% of consumer direct revenue

# Wine Clubs

## Benefits to Wineries

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- Volume
- Margin
- Predictability of sales
- Brand-building
- Market Research

# Wine Clubs

## Key Performance Indicators

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- Range of levels of commitment to and success with wine club channel
  - Most established clubs had at least 1,500 members
  - Most included 4 shipments per year
  - \$200 - \$2,500 aggregate dollars per customer per year
  - Re-order tracking is important

# Wine Clubs

## Diverse Approaches

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- Single Tier vs. Multi-Tier
- Discount vs. No Discount
- Targeted email campaigns
- Promotion of futures participation
- Allocate scarce product to members
  - Volume limits and fixed windows of availability

# Wine Clubs

## Paths to Success

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- Conversion from Tasting Room
- Exclusive Offerings
  - Products, Events, Perks
- Breadth of Selection
- Dedicated Staff

# Wine Clubs Challenges

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- Channel conflict
- Retention of new members
- Execution of fulfillment
- Membership growth
- Protect brand
- Credit card failures

# On-Site Retail Benefits to Wineries

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- Brand-building
- Volume
  - Direct Sales
  - Sign-ups to Wine Clubs
- Margin

# On-Site Retail

## Key Performance Indicators

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- Disparity on information tracked by different wineries
  - Visitor Traffic of 5,000 to 150,000 per year
  - Average Purchase per Visitor
  - \$ Generated per Staff hour
  - Conversion to Wine Club
  - Individual P&L

# On-Site Retail

## Diverse Approaches

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- Operating Hours and Days
- Tour Time and Duration
- Open vs. Appointment
- Customer Attraction
  - Location – Destination
  - Concierge Service
  - Outreach Tactics

# On-Site Retail Paths to Success

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- Customer Service & On-Site Staff
- Optimal Tour Mix
  - Basic Tour or Tasting \$
  - Library tastings / Seasonal \$\$
  - Blending / Harvesting \$\$\$

# On-Site Retail Challenges

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- Get visitors to winery
  - Available Visit/Tour/Tasting Information
  - Directions to Winery
- Increase revenue per visitor
- Acquiring visitor names

# eCommerce- Survey Results

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- 11.3% of total direct to consumer sales volume came from eCommerce
- 2% of total sales volume came from eCommerce
- Total volumes (of direct to consumer channel) sold via eCommerce ranged from 0-60%, **but 80% of wineries fell between 10-30%**

# eCommerce

## Paths to Success

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How can I use it?

- Wine Club
- Newsletters
- Special Offerings
- General Communications

Why Should I use it?

- Cheap
- Quick
- Higher order rates

# eCommerce

## Paths to Success

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### Websites

*A “Must” have for all wineries*

- Information
- Mailing List
- Ordering
- Special Features
- Use data as market research

# Fax/Phone

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## Survey Results

- Still a necessity
- Current Customers are less tech savvy
- People want to talk to people

## Challenges

- Double data entry
- Inefficient use of man power
- Less data available

# Key Takeaways

- Organizational Structure
- Lessons Learned

# Organizational Structure

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- Understaffing is the norm
  - Range from One to Twenty in Direct to Consumer
- Prioritize more lucrative channels
  - CEO attention? (Rare in industry)
  - Full time Wine Club Manager essential
- Training
- Incentive Programs
  - Increasingly popular
  - Highly effective for growing vineyards

# Direct to Consumer Lessons Learned

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## Execution of direct to consumer is challenging

- Know your customers
  - Brand definition
  - Data management
- Alignment
  - Goals first, and strategy follows
- Investment and allocation of resources
  - More than just monetary
- Customer acquisition is critical for growth

# Direct to Consumer Other Industries' Practices

# Other Industries

## Leading in Direct to Consumer Sales

- Person-to-person companies (Amway, Avon, Tupperware)
- Catalogue Companies (Spiegel, LL Bean, J Crew)
- Clubs (Harry and David, Popcorn Factory)
- Information business (credit agencies)
- eCommerce businesses (Buy.com, Amazon.com, Expedia.com)
- Service industries (insurance, financial planning, legal, travel)
- Television based sales (HSN, infomercials)
- Product placements (film and television)

# Customer Acquisitions Strategies - Marketing

- Experiential marketing programs - live event marketing experiences where consumers interact with a product or brand face-to-face
  - In recent survey, 43% of women rated experiential marketing most likely to influence purchase decision, compared to advertising (20%) and direct mail (37%)
  - Food and beverages among top categories for event marketing across gender and age groups
  - Key factors that that increase the influence of live event marketing experiences on consumers: location, entertainment, duration, interaction, affinity
  - Farmer's Markets, food events, educational seminars

*\*Sponsorship Research International (SRi) for Jack Morton between October 20 and October 22, 2003.*

# Customer Acquisitions Strategies - Marketing

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- Focus on the Influencers
  - Identify industry thought leaders
    - People who are regarded as most knowledgeable
  - Target Influencers
    - Samples
    - Education, events
  - Facilitate “cult” following promotional strategies
    - Promotion of Influencers activities
  - Example: Rollerblade, Clorox

# Customer Acquisitions Strategies - Marketing

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- Co-marketing with complementary products through tie-ins
  - Advertising and distribution synergies
  - Seasonal and gift sales – bundling (holiday baskets)
  - Media stories on lifestyle and hospitality (Better Home and Gardens)
- Product placement opportunities
  - BMW and James Bond

# Customer Acquisitions Strategies - Marketing

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- Direct Response Television (infomercials)
  - Educational series (grapes, wine making) on Food and Wine Channel
  - Credible spokesperson
    - Lifestyle experts – Oprah
    - Technical experts – Head chef at French Laundry
  - Success of home shopping channels (QVC and HSN)
  - Timing, especially holidays
  - Example: Apple, Whirlpool, Sony, Clorox, Proactiv Solution (membership model)