

# A SLOW START

The internet is changing not only the way wines are sold, but also how the wine world communicates. While it offers small estates new roads to market, it is forcing larger producers to rethink their distribution policies. Dr. Laurent Guinand looks at the implications.

While the reasons were different in Europe and in the United States, the result was similar: until recently internet wine sales remained marginal. Europe has lagged behind America and Canada in terms of e-commerce, not only for wines but also for many other consumer products. The adoption of new channels and new technologies has likewise been slower in Europe; consumers, weary of security issues, have mistrusted online transactions; and the impossibility of tasting wine has hampered the development of online sales in markets accustomed to a more direct contact to the producer and the nuance of region and vintage.

European supermarkets have also been offering an increasingly large selection of wines at low prices, squeezing margins. Therefore, paying for the delivery of a case of wine did not make sense when compared to the ease of buying from local supermarkets or well-known chains such as Nicolas, Thresher's or Jacques Weindpot. Purely online players have therefore had to develop a clientele of connoisseurs who are willing to pay more for shipments or to wait to receive specific wines that they want to find. Given the fact that these types of clients do not constitute a large group, these purely online stores have often had to expand their offerings to neighbouring countries. This has meant creating expensive multilingual platforms that have taken time and money to develop.

In the US, where the general acceptance of e-commerce has been faster and wider than in Europe, it is the logistical aspects of online wine sales that have limited growth. Since the establishment of the three-tier system after Prohibition, the ability to distribute and sell wines directly to consumers has been very limited. The recent Supreme Court ruling on the 21st amendment liberalised direct wine sales by pushing the decision back to the state level. The main outcome of the ruling was that in-state wineries could not benefit from preferential treatment over out-of-state wineries. Slowly, some states are therefore opening their borders to direct shipment from wineries in other states in order to allow their own wineries to do the same. This has opened some opportunities to sell wine through the internet in a more substantial manner - and New York State was the most important local market to open after the ruling.

Online wine retailers take different forms in Europe and the United States. In the latter case, the leading internet retailer is by far [www.wine.com](http://www.wine.com), with estimated sales of \$32 million in 2006. In Europe, [www.chateauonline.com](http://www.chateauonline.com) is reputed to be the largest provider. Both are funded by well-established venture capital firms, though [www.wine.com](http://www.wine.com) went through several ups and downs before stabilising at its current level.

Other models of successful online businesses include established retailers that have decided to create an online presence, such as Zachys in New York, Geerlings & Wade in Massachusetts, Cdiscount, Nicolas in France, Tesco in Britain or Hawesco in Germany. Another interesting model in the States is Wine Access, which regroups about 100 wine stores on a single platform and triages the online orders through the different stores based on the location of the customer.

## *Different models emerging*

The most impressive growth in internet sales does not necessarily come from online retailers, but from those wineries that have created online channels. With the relaxation of the 21st amendment, the availability of better and cheaper web-based technologies and interfaces, and the development of outsourced logistical solutions, wineries have been able to develop their direct shipments either by taking orders directly on their sites or through wine clubs. With the development of Web 2.0, the wave in which people talk directly to other people, powerful marketing and sales tools have become available to help wineries significantly increase their online sales. Numerous wineries have understood that dealing with individuals online can mean higher visibility and profitability for a lower cost than in the traditional channels. Because wineries already have their clients' trust, it is easy to leverage this with the right tools to create added value.

An integrated internet marketing approach is challenging, but proves more effective than simply adding a cart to an existing site. Successful online wine marketing strategies include:

**Website redesign:** Because of the increase in online traffic, opportunities to generate online revenues now truly exist. Some wineries are taking advantage of them by redesigning their websites and adding e-commerce modules. Costs associated with such improvements have gone down significantly in the past few years, so even smaller wineries can afford a functional and efficient website. Redesigning the website should also include creating sections dedicated to the trade, the press and private consumers. Based on clarity and functionality, The Winery Website Report ranked the websites of Lynmar Winery, Clos du Val and EOS Estate as the top three winery websites in 2005. Some wineries and wine brands, such as Red Bicycleette for Gallo or Lulu B for Boisset USA, with its online wine ambassador, have also been quite creative in promoting themselves.

**Search Engine Optimization:** Search Engine Optimization strategies help capture online traffic by directing people to the winery site based on the nature of the search. SEO requires not

only defining and refining a number of keywords in the meta tags of each page, but also aligning the meta tags' keywords with the natural keywords in the text of the site.

**Online Ads:** American wineries are increasingly participating in online ads programmes, such as Google Adwords, MSN adCenter, or Yahoo Search, to divert traffic to their sites. These programmes usually prove to be more effective and to have better Return on Marketing Invested (ROMI) than banner ads. A couple of good examples are Kobrand in New York City and the Temecula Valley Wine Growers, which have been able to position their ads in the top five advertisers, that is those receiving the highest numbers of clicks for a large number of keywords.

**E-mail lists and blasts:** Names and contact information gathered at the tasting room, at trade shows and directly on the website can generate initial online sales and then wine club sales. According to Jeremy Benson of Benson Marketing, an additional list of 1,000 names can, with the right approach, usually generate incremental revenue of \$2-3,000 per month from online sales of wine as well as items such as t-shirts or accessories. Online sales enhance the retention of clients as well as their loyalty, as they are slowly prompted towards making regular purchases in wine clubs. Cheap email solutions such as Constant Contact or Vertical Response have proven very effective in setting up and running these e-mail campaigns. A few small wineries, in particular among those with less than 20,000 cases, claim more than 60% of their sales as online with the main driver being their e-mail list.

**Blogs:** While the costs of blogging are low, the time commitment remains the main barrier in developing a blog, and very few wineries have one. Yet wineries with a blog enter the close-knit and very lively world of wine bloggers, with their reciprocal links and traffic, RSS feeds and Q&A postings that can spread a message like finding a good value wine in a difficult vintage. In a world in which information about a wine is word-of-mouth, referrals from a blog are sometimes more powerful

## QUOTE UNQUOTE

» Customer confidence in purchasing wine online has increased dramatically in only a few years. «



*Tony Laithwaite is the founder of the largest specialist home delivery business in the world, Direct Wines.*

than a rating from the Wine Spectator or Advocate. Some of the most innovative wineries have actually sent free wine to bloggers to see whether it would generate communication. In some instances, it has yielded very positive effects. For example, South African winery Stormhoek sent 100 bottles of wines to bloggers around the world. As feedback was positive, it organised a wine-tasting dinner for the blogging community. For a Christmas promotion, the winery issued a downloadable 40% discount coupon. Downloads reached 150,000. As a result, the winery increased its output from 50,000 cases in 2004 to 200,000 in 2006, and currently has over two million visitors per month. Another well-regarded winery blog is Capozzi Winery's pinotblogger.com, the 2007 winner of the Best Winery Blog award in the US.

For American wineries, the result of these new internet marketing strategies are impressive. According to VinterActive, direct and online sales are growing very rapidly. An excerpt:

- Total direct sales by US wineries in 2006: \$2.4 billion
- Value shipped directly to US consumers in 2006: \$1 billion
- Wine club sales in 2006: \$598 million, up 66%
- Online sales at US wineries: \$197 million, up 45%
- Tasting room sales in 2006: \$1.3 billion, down 18%
- Event sales at US wineries in 2006: \$100 million, down 30%

1 Blogs		Rank Name   Country   Blog (www. ...)	
Rank	Name   Country   Blog (www. ...)	Rank	Name   Country   Blog (www. ...)
1	Vinography   USA   vinography.com	11	Winehiker   USA   californiawinehikes.com/winehiker
2	Stormhoek   South Africa   stormhoek.com	12	Pinot Blogger   USA   pinotblogger.com
3	Fermentation   USA   fermentation.typepad.com	13	Basic Juice   USA   basicjuice.blogs.com
4	Winelibrary TV   USA   tv.winelibrary.com	14	Alawine.com   USA   alawine.com
5	Wine Outlook   USA   wineoutlook.com	15	Aristide   Italy   aristide.biz
6	Bainbridge on Wine   USA   stephenbainbridge.com	16	Grape Radio   USA   graperadio.com
7	Dr. Vino   USA   drvino.com	17	Oenoline   France   oenoline.com
8	Winecast   USA   winecast.net	18	drink tank   Germany   drinktank.blogg.de
9	Spittoon   UK   spittoon.biz	19	Cal Wineries   USA   calwineries.com/blog
10	Lenneveurs   USA   lennthompson.typepad.com/lenneveurs	20	Winzerblog   Germany   winzerblog.de

2 Key online players by country	
<b>USA:</b> www.wine.com, www.geerwade.com, www.winebid.com, www.winecommune.com, www.zachys.com	
<b>UK:</b> www.tesco.com, www.waitrosewine.com, www.directwine.co.uk, www.virginwines.com	
<b>France:</b> www.chateauonline.com, www.wineandco.com, www.millesima.fr, Vinsmoinschers.com, www.nicolas.com, www.idealwine.com, www.cdiscout.com, www.rouge-blanc.fr	
<b>Germany:</b> www.hawesco.de, www.guteweine.de, www.rindchen.de, www.vinopolis.de, www.rotweiss.de	
<b>Holland:</b> www.wijnbeurs.nl, www.gall.nl	
<b>Italy:</b> www.wineshop.it, www.vinoclub.it, www.lavinium.com, www.spacewine.it	
<b>Japan:</b> www.rakuten.co.jp	

The internet has also helped reshape the retail market in Great Britain, with home-delivered wines now comprising about 10% of the retail market of 120 million cases, up from around 6% in 2000. Given that the average bottle price for home-delivered wine, much of which is still mail order business, is about £6.50, compared with the average overall bottle price of less than £4, it's a booming part of the industry, generating about £900 million a year in revenue, and the internet is taking an ever greater part of that market.

In 2006, Tesco.com ranked first place for visits among all websites in the Hitwise Top 10 Online Performance Awards, with their Wine Club coming in at eighth place in the same category. Although growing, online sales still only account for about 4% of their wine business. Waitrose Wine Direct also witnessed a 42% year-on-year increase in 2006, with similar figures predicted for 2007. Majestic's head buyer Matt Pym confirmed that online sales, currently accounting for 7.25% of company sales, rose by 38% in 2006 and predicted a similar rise through 2007. Direct Wines, including Laithwaites and Virgin Wines, is estimated to now do 20% of their business online. In particular, their Wine Without Fuss case, 12 bottles delivered to the door once a month, has been very popular. Targeted at cash-rich, time-poor buyers, it plays to the strength of the internet.

Online sales in Germany are estimated to have been €10 billion in 2006 and a full 40% of the population feels comfortable buying online. Although those numbers may not accurately reflect wine purchases, 51% of those who have purchased wine online want to do more. Interestingly, those in the age group between 50 and 69 are growing at the fastest clip. As elsewhere, it is the largest wine retailers who have been the most active in wine sales. Hawesco, the largest wine mail order company on the continent has had considerable success, but admits that the internet is not necessarily generating new revenue. Instead, buyers are choosing to buy online what they before might have ordered by phone or fax.

Although the total turnover at only € 30-50 million is much smaller, internet communication is developing quite rapidly in the Dutch wine trade as well. As elsewhere, a number of the established importers and retailers are also active on the web, but there are a lot of new, albeit smaller businesses that were set up as internet businesses. The two largest sites by volume are Nederlandse Wijnbeurs, which was recently bought for Fosters by Baarsma, and Gall & Gall, who are thought to do between 5-10% of their business online.

The internet in Japan also serves the purpose of a convenient and non-intimidating sales base as it does elsewhere. Yet there this is arguably of greater importance due to cultural traits that deem direct selling confrontational, prize elaborate packaging and well-kempt labels and revere arbiters of taste such as sommeliers and critics. Subsequently, the internet serves to mitigate language barriers with full translations of Parker reviews on many sites. Expatriate residents, arguably the biggest consumers of wine, utilize the internet to mitigate the lack of educated sales people in stores and their own language barriers. The internet obviates this difficulty.

## COMMENT

» 1855 has experienced 50% annual growth for the past several years. «

*Emeric Sauty de Chalon, President of 1855.com*

1855.com decided early on to focus on the high end of the business. Of course, taking the year of the famed Bordeaux classification as the name of the company conveys particularly well that message. In addition, as numbers come before the letters of the alphabet, it puts you in the first spot on directory pages when people are researching companies selling wine online. There is much more to it, however, than a clever name. When selling wine on the net, you can serve two kinds of clients: the casual drinkers, sometimes neophytes, who are more bargain hunting for their everyday wines; and the connoisseurs who are looking for specific wines and are thus less sensitive to price. While casual drinkers tend to be less faithful, connoisseurs can come back more often if they find what they are looking for.

Serving the connoisseurs makes a lot of sense when you know the overall economics of the internet wine retail business: the average customer acquisition cost has been €150 over the years; the average online retailer's margin for one bottle sold below €15 is €3-5; the shipping costs are similar for a €5 bottle of wine and a €50 bottle of wine; neophytes' online wine orders rarely go beyond €100 and they rarely come back for a second order; Connoisseurs' online wine orders usually represent several hundred Euros and they come back when they find what they want. Therefore, the return on marketing investment (ROMI) is much faster and higher for a connoisseur than for a casual drinker.

As a footnote, 1855.com was the first online wine retailer to go public last December.



Although no official figures are available, internet sales in Japan are estimated to equate with approximately 4% of total volume. The leading internet purveyor is Rakuten with total sales of JPY9 billion (€55 million) in a market valued at a total of 250 billion yen. Rakuten's goal for 2007 is a 10% share of total market value, with the internet set to expand rapidly. Smaller players such as Kyoubashi also exploit the internet to sell highly Parkerized wines that are not necessarily reflective of Japanese trends at large.

Although it is clear that not all markets are progressing at the same pace, and that legislation will continue to pose distributional problems in some countries, there is no question about the fact that the internet has changed the way the world communicates about wine. Personal contact may no longer mean knocking on a vintner's door on a Saturday morning in Burgundy to taste the new vintage, but our desire for a more intimate relationship with the wines we are drinking has provided the digital world with enormous leverage. ■