



Left: A typical Sam's Club wine selection; right: A selection of Sam's Club brands.

INSIDE SAM'S CLUB

American retailers like Costco offer people a way to buy products at close to wholesale prices. One of those is Sam's Club, an independent division of the retailing colossus Wal-Mart. Sam's Club representatives talk to Felicity Carter about their wine division.

Sam's Club, created in 1983 and named after Wal-Mart founder Sam Walton, has more than 500 outlets throughout the US, selling to 47m members - most of whom are small business owners. Around 380 of these Clubs, located in states as diverse as Texas, New Jersey and South Carolina, sell wine, offering between 120 and 170 separate items. This means that producers who can get inside Sam's Club will be seen by a wide American audience. Sam's Club also offers its own 'control labels', a relatively new concept for the US, though one that's similar to the private label in the United Kingdom, where wines are made and bottled especially for the retailer. In the case of Sam's Club, however, the wines are not sold under the name of the store, but as distinct brands. Such control labels include the Blue River Riesling from Germany, and the Familia Cara Chiantis

and Beviamo Moscato d'Asti from Italy, while Miguel Torres makes a Chilean Cabernet Sauvignon for the Club. And as well as the big names, Sam's Club also offers locally-sourced wines to its stores where appropriate.

Until recently, the role of senior buyer of wine, spirits and beer for Sam's Club was held by Bob Paulinski MW. The position is currently vacant, so wine buyer Gillie Brandolini and corporate communications manager Susan Koehler took questions.

As a matter of policy, Sam's Club will not divulge information about volumes or financials to the media.

Meininger's: Could you explain the concept behind Sam's Club?

Koehler: We're celebrating our 25th anniversary this year. We were founded on the principle of helping small business

to have the buying power of big business. Through the years that evolved to include consumers or families and we do serve both. The big difference between us and a retail store is that people pay an annual membership fee to shop with us, from \$35 up to \$100. With that \$100 membership, you get additional benefits or cash back if you use a Sam's Club credit card. Non-business membership fees start with \$40 annually. We can deliver significant savings, of 30% to 50% off traditional retailers. We also carry some groceries, fresh items, seasonal merchandise and high end electronics and jewellery. Diamonds are very popular. The same applies with wine: because of the low overheads, we're able to pass those savings on to our members. There is also the tradition of bulk purchasing, so instead of buying a roll of toilet paper, you can get six to 12 to 24.

Meininger's: Apart from being a Club, what is the difference between what you sell and what Wal-Mart offers?

Koehler: Wal-Mart also carries wine and spirits, but in general Sam's Club serves an average consumer with an annual income of \$65,000 or above. They're generally more of a business owner. We're a great complement to Wal-Mart from a business perspective. Wal-Mart can be so broad, with 100,000 items in a super store, where we're very limited - the best of the best, like a personal buying agent. We only carry about 5,000 items.

Meininger's: What's the wine buying process at Sam's Club?

Bandolini: Because of the three-tier wine system in the United States, wines are usually presented by the distributor in the state we happen to be dealing with. We also deal with suppliers directly and work with them on specific projects.

On the wine side, there is myself, two assistant buyers and a couple of buyer's assistants. It's a constant barage. We get things submitted by email, we have people who call us and we also have a lot of contacts we've dealt with for a number of years. They will send samples in or when we meet they will bring bottles with them. We see a lot of product, but with the limited space we have we don't always get a chance to use it. We have a 5% selection rate. We also have a core base of items, though one of the things about the Club is that there's nothing we have to have. We offer what the consumer is really looking for, so your standard brands like Kendall-Jackson, Yellow Tail, Beringer and things of that nature. They're your core, nationally-branded items that most consumers are familiar with. We may have a winery locally and we'll seek to work with them to see if there's a way we can bring them into 'Club of the Community.'

Meininger's: Is Champagne a core product? And do you offer items that are beginning to be trendy, like Cava and Prosecco?

Bandolini: We will carry Champagne in all locations that we have the

license. When you're talking about something as specific as Prosecco, that would be segmented to clubs where we know we would be able to sell. Having locations all over the country, we have many demographics and we do our selections one Club at a time.

Meininger's: How are the wines displayed in store?

Bandolini: We lay the Club out in pallet runs, so you have a full pallet that holds 56 cases and we'll line an entire aisle with those. We'll have 24 or 26 different items on pallets that we drive in. These are the volume items. Then we carry a fixture we call the 'wine island', a wooden fixture that has 66 wooden boxes. Within that we bring in our higher selection of wines and put our selection message in this wine aisle. The aisle has up to 80 wines, that can be anywhere from \$11 to \$100, depending on the market we're in.

Meininger's: Do you find it a problem to convince wineries to sell their wines, when they know you will discount heavily? Won't they worry that that will damage their brand?

Bandolini: We definitely have that issue with a number of wineries. We work around that as best we can and talk to these people constantly. But, the consumer that goes to a fine restaurant and then gets into a Jaguar and drives to a warehouse is the same consumer. These people have expendable income and are the people that the winery wants.

Meininger's: You mean, rich people like bargains too?

Bandolini: Exactly. Sam's Club] was selling Louis XIII Cognac for \$1000 when it was \$1500 on the street. We had people coming in who had a lot of money - but \$500 is a lot of money [to save] and they bought it.

Meininger's: In terms of the international mix, which countries are important to you? Does a good wine from Hungary stand as good a chance of being featured in Sam's Club as a fine wine from France?

Bandolini: It comes down to what's in the bottle and we will look at wines

"Sam's Club provides valuable national retail exposure for Torres in the US, and that justifies the special label."

Miguel Torres Jr

Torres is a supplier to Sam's Club, selling a number of brands through them, including a 'control label' from Chile.



from other countries, although obviously wines from France and Italy are core items. It's not that we wouldn't carry Hungary, but that it's got to come down to the quality and how much area we've got.

Meininger's: The cost of Italian and French wines are rising, plus the euro is strengthening against a weakening dollar. What impact is this going to have on wine sales?

Bandolini: The euro is fluctuating so it does affect consumers. Over a period of time they'll tend to shy away [from imports] if prices get too high. The US brands have a tendency to come back during this period, but it's cyclical and we've seen it many times during the years. Chile, Argentina and New Zealand are holding their price points.

Meininger's: What's happening by country? What reaction are you seeing to New Zealand wines, for example?

Bandolini: New Zealand Sauvignon Blanc is still a big varietal; Chardonnay is probably a little flat, but we're starting to see unoaked Chardonnays. We've tried a couple of those.

Meininger's: What about Italy?

Bandolini: Italian sales have been strong. Last year we saw growth. We have brought in our own control labels in Chianti and saw a good steady growth in those items, so we're looking at different regions. I foresee new products coming into the clubs this year.

Meininger's: How about French wines?

Bandolini: They have been soft for us and we're thinking about what we might bring in to generate some interest on those items. For us it's still predominantly Champagne - obviously that's the big gun - but there's still a market with Pouilly-Fuissé and we can still drive strong sales with Beaujolais in some locations.

Meininger's: And finally, what about South Africa?

Bandolini: We've tested South Africa in numerous markets, but the response from our consumers has been soft.

Meininger's: What's the problem?

Bandolini: I honestly don't know. Some of it might be the wine varieties. Varietals like Pinotage are still relatively unknown to a number of consumers. We'll test it and try to get a hit, but otherwise we move on and try something different. It might work better a couple of years down the line.

Meininger's: How is Spain doing?

Bandolini: Spain is another that we are looking at strongly. I feel there's a good opportunity for Sam's Club with wines from Spain and we have worked with a number of brands over the last couple of years. We've got a very good relationship with Torres. They're working with a number of brands for us and have a control label out of Chile for us. We'll continue to work with them. Argentina is also coming along. It's not as strong as I would like it, but I think we're probably bringing in new items this year. Chile's probably our biggest driver right now. The Chilean properties we've brought in have worked very well for us. We have our own control label, VEO: the Cabernet alone is one of the finest Cabernets out there, a solid everyday drinking wine at \$6.88 (€4.65).

Meininger's: What do you offer members in terms of education and involvement with wine?

Koehler: We do a lot of member education; we have a bi-monthly magazine called Source. It's a members' benefit and is distributed to both high volume and small business members

and is also available in the Club. We can do anything from five to ten million copies.

Bandolini: We do live tastings through a number of our clubs. Throughout the holidays we were running 90 clubs where we had people pouring a tiny sample. We like to do it leading into holidays and a couple of other times during the year, when the member is looking for these opportunities; there are legal restrictions you can run into so we have to monitor it.

“Each state has its own regulations. It's a mind boggling maze you have to go through.”

Gillie Bandolini

Meininger's: Legal restrictions?

Bandolini: Fifty different states and they all have their own regulations. It's a mind-boggling maze you have to go through.

Meininger's: Sam's Club sells high volumes of beer and spirits as well. Do you see a crossover between the wine consumer and consumers of other

alcohols? And if so, what is it? Do wine lovers gravitate more towards spirits than beer, for example?

Bandolini: It's a cross section. There are people who drink just spirits or just wines - and there is also a lot of crossover within the spirits we carry. We present (them both) very similarly. We pallet drive a lot of volume, but also bring in fine spirits. We will carry Louis XXIII Cognac and a number of single malt Scotches. Not just the low end products.

Meininger's: Any trends you're seeing that you'd care to remark on?

Bandolini: Over the last few years we were in front of the Riesling rise. Pinot Noir was obviously very strong off Sideways, but there has been some softening of late. We are looking at other things coming along: unoaked Chardonnay and a couple of Viogniers that are doing very well for us. Again, the Chilean wines are coming on very strongly for us. Merlot has softened a lot and Zinfandel has been a very hard sell for us, too. And it's one of my favourite wines!

Meininger's: Have you appointed a replacement for Bob Paulinski yet?

Bandolini: The chief wine merchant position is yet to be filled. ■

WAREHOUSE CLUBS

Warehouse clubs are becoming an ever more popular way of shopping in the US, particularly among the bargain-loving affluent. As a result, many clubs show their value by offering cut-price luxury items, from designer clothing to fine china to rare diamonds. But because of the heavy discounting, some high-end suppliers have previously been reluctant to sell to the clubs for fear of damaging their brands, though this is now less of an issue as more suppliers come on board.

Clubs are able to offer loss leaders and discounts because they have lowered their profit margins, often dramatically. ConsumerReports.org quoted Stephen Hoch, marketing professor at the Wharton School of Business, as saying that the average profit margin is only 11%, which means prices can be up to 63% lower than those of other retailers.

The two biggest clubs in the US are Costco (www.costco.com) and Sam's Club (www.samsclub.com), with 95m cardholders between them. Both sell goods under their own labels. Costco has fewer stores, but these are in more affluent locations to attract higher-value customers. Sam's Club still retains something of its ethos of helping small business owners, stocking more items that would interest this group, including commercial kitchen equipment.

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