

HOW TO BREAK INTO THE U.S. MARKET

With the United States on target to become the largest wine market in the world by 2010, producers everywhere are eyeing aspirational American consumers. However, competition is fierce and distribution is concentrated in ever fewer hands. Tina Caputo asks what an emerging producer must do to make an impact.

It's official: The US is now the world's second-largest wine consuming country by volume. In 2007, wine consumption surpassed 300m cases for the first time ever, according to The Nielsen Co., and imports accounted for a record-breaking 30% share of the US market. According to John Gillespie, president of the Wine Market Council, 2007 was a "watershed year" for the US wine industry that marked the arrival of a true wine culture in America. To add to the good news, the market is being driven by adult Millennials — those aged between 21 and 31 — members of the generation most likely to buy international wines.

Today there are 8,000 more on-trade accounts and 6,500 more off-trade-accounts than in 2006, according to Nielsen Co. But the number of active wine brands in the US market jumped from less than 2,000 in 1999 to over 4,000 in 2007. While America's top 10 brands are losing market share, making way for new brands, "it's tougher to get consumer attention because you're competing with so many other brands," says Danny Brager from The Nielsen Co.

The exchange rate

The decline of the US dollar presents challenges for importers, as price increases become inevitable. While high-end wine producers are confident that their customers will remain loyal, price increases for brands priced in the \$9.99-\$12.00 category may cause Americans to seek out lower-priced wines. The weakening of the US economy is likely to have a similar effect on middle-tier wines, though industry

experts don't see it as a long-term problem. The recent trend of "trading up" to more premium wines is likely to continue, they say, although sales growth may slow down temporarily.

Finding a distributor

Distributor consolidation has left fewer options for representation. The top three — Southern, Charmer & Peerless and National & Republic — did \$15b worth of business last year, but their portfolios are bursting at the seams. The remaining distributors are overloaded with brands. "Envision it as an hour-glass," says Tempe Reichardt of America Uncorked, which provides market development services for international wineries. "There are all these wineries trying to come into the market, but the avenue to get there is so narrow that it's extremely difficult to break in."

While it may seem logical to target large wine markets like New York, there is tremendous competition in those regions. Would your wine be better off in a secondary market like Detroit, where it might receive more attention? You should also take into account regional wine preferences. It's a good idea to talk to restaurant and retail wine buyers in various markets to find out what their particular needs and interests are. You can also set up customer group tastings and send samples to retailers to determine which of your wines will do best in a given market and at what price-point. "You must work with the wine you produce and stay behind it," says Marc Laderriere, sales and marketing director for California's Vina Robles winery. "Be committed to your style — as a small

winery you cannot swing your style with the market."

Before you target distributors in your chosen markets, make sure you can present a clear picture of how your brand differs from others in the same category. "Be ready to present a comprehensive two-year business plan — including sales projections and marketing strategies," says Reichardt.

Find out as much as possible about the distributors in your target markets. Survey accounts in your target markets about which distributors have the best reputations for service and which are best avoided. Call wineries that your target distributors represent. Ask if they're happy with their service and whether the distributors are financially sound.

Before your wines can be imported to the US for resale by a distributor, you must obtain label approvals for each unique product from the US Alcohol and Tobacco Tax & Trade Bureau (TTB). The Certificate of Label Approval, or COLA, can be submitted in paper form or electronically, usually by the importer or the importer's agent. For specific label requirements, see www.ttb.gov/wine/bam.shtml.

Tracking results

A good distributor will provide suppliers with monthly sales reports showing depletions and accounts. Larger distributors will sometimes even make reports available online. Check in with distributors on a weekly basis to find out how sales are progressing, and to remind them of your existence. When you're in the area, arrange to ride

around with your distributor to check on accounts. When setting sales goals for the distributor, be realistic. Start with a two-year period of investment—any less will not be enough time to establish your brand—and create goals against the costs of doing business.

Discounting and club stores

In addition to sales data, distributor reports include information about which accounts purchased your wine. If you're concerned about discounting, monitor retail catalogs to find out how your wines are being priced. In most cases, prices vary between accounts by only a few dollars per bottle, unless they're being sold at a club or warehouse store, such as Sam's Club or Costco.

In the last five years, club stores have expanded their wine selections to include many high-end brands. Today, it's not unusual to find first growth Bordeaux wines in such stores. Selling through stores like Costco can create image problems, however, for restaurant wines. A wine with a suggested retail price of \$50, for example, could sell for \$30 at Costco. That same wine might appear on a restaurant wine list for \$150, leading consumers to view it as overpriced.

Marketing matters

Thanks to distributor consolidation, the responsibility for marketing and promoting new brands now falls to suppliers. Distributors are no longer willing to spend time building a brand, only to have it snapped up by another distributor a year later. "No one will build your brand anymore, not even 'small-book' distributors," notes Marc Laderriere of Vina Robles winery. Therefore, you should be prepared to distribute brochures, shelf-talkers, display items to accounts and provide staff training. The value of distributors today is in their relationships with accounts in the various sales channels. While it's expensive to hire a dedicated US salesperson, it is essential in successfully marketing your wines. Market visits – two to three times per year, if possible – are also important

"With the weak dollar, you have to be inventive just to maintain sales."

Ernie Loosen, Dr Loosen Estate on the Mosel

After working with numerous different importers, Ernie Loosen set up his own US agency in 2003. The three-tier system was an anathema to him, as it carries the risk of market loss when the dollar's value falls. Start up costs - with lawyers, licenses and so on - are high, but it offers more flexibility with margins, better control over distribution and a clear focus on a limited number of brands. Now present in 48 states, his agency is now considering adding another estate or two to its portfolio.



for brand building and keeping your wine in the minds of your distributors.

The media

Unless you have personal contacts with American wine writers, it pays to hire a public relations representative or agency. Monthly fees can range from \$1,000 for a product launch to \$6,000 per month for comprehensive services. While you can certainly obtain a list of media contacts and send out your own samples and information, writers are more likely to take notice if a brand is introduced to them by a trusted public relation's contact.

Ratings are an important sales tool in the US market, but it's unwise to rely solely on Wine Spectator scores. Make sure your message gets out not only to the top publications, but to newspaper wine columnists in key markets, lifestyle magazines and influential wine bloggers. Keep in mind that writers are unlikely to review wines not available in their markets.

Online sales

"I believe that the future is going to be more and more direct to the consumer because of the greatly reduced channels to market," says Tempe Reichardt of America Uncorked.

Importers interested in selling online can take a couple of different routes: set up an e-commerce business in the US, or sell through a multi-brand wine marketplace website, like Bottlenotes or Vinomatch. Market place websites typi-

cally retain between 15% and 35% of wineries' online sales.

Private labels

Private label wines offer opportunities outside the traditional distributor network. With an average retail price of around \$5, these products offer consumers high-quality wines at lower prices than traditional branded wines. For suppliers, private label wines provide an outlet for surplus wines, and benefit from aggressive promotion by the retailers and restaurants that sell them. Most off-trade private label wine brands in the US are 'merchant brands' – those created specifically for a retailer, but not identified on the label as house brands. Though house brands are popular in markets like the United Kingdom and Germany, they are rare in the US and are associated primarily with on-trade accounts..

Trends

Organic wines grew 29.1% by value and 26.8% by volume during the year ending 15 December 2007, yet account for only 0.3% of US market share. The 3L bag-in-box category has also shown impressive growth – up \$28m by value – accounting for 1.1% of market share. At 4% of market share, screwcap wines are enjoying greater acceptance, while 'hot' wine varieties and styles include Riesling and dry rosé. "Wine buyers are seeking variety," says Danny Brager of The Nielsen Co. ■

This piece is an extract. To see the full article, please visit www.wine-business-international.com