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# Wineries Moving to Benchmark DTC Channel, Margins

The direct-to-consumer sales channel continues to grow in importance

Liza B. Zimmerman



**THANKS TO A COMPETITIVE** retail market and continued wholesaler consolidation, many wineries are looking for more profitable ways to sell their vintages. While direct-to-consumer (DTC) sales have long been used by smaller wineries, especially those under the 5,000-case mark, many others are jumping aboard as they recognize the value of this revenue stream.

This sales channel was the focus of the 2018 **Direct to Consumer Wine Symposium** (DTCWS) held in Concord, California in mid-January. The value of the DTC shipping channel in 2017 was estimated to be \$2.69 billion, according to Colorado-based **Larry Cormier**, general manager of **ShipCompliant by Sovos**, a compliance and technology platform that was present at the DTCWS. While DTC is a valuable market segment, it is also still a small one, accounting for 8.6 percent of the value of total U.S. wine sales and 1.3 percent of total sales volume, according to **Jon Moramarco**, a partner in San Rafael-based **Gomberg, Fredrikson & Associates**.

Profit margins for DTC sales can hover around a top level of 80 percent in comparison to 50 to 30 percent—or potentially less—for traditional three-tier sales models, said several producers, who did not want to go on the record. At this point there is no average standard size for wineries that sell DTC, according to **Jennifer Goodrich**, director of sales and marketing of Napa-based **Wine-shipment**, which provides storage and transportation services.

“On paper at least, wineries can sell DTC at full retail price compared with the 50 percent discount to retail at which they sell to wholesalers. In reality, most wineries achieve much smaller margins, not only because direct sales are often discounted, especially to wine club members,” said **Barbara Insel**, president and CEO of St. Helena-based **Stonebridge Research** in a recent interview.

Regardless, “margins are better for smaller producers than the three-tier system. Assuming costs are properly allocated, wineries tend to report, for example, that the 30 percent of wines sold direct generates 50 percent of their sales revenue,” she said.

Interest in the DTC channel is growing for a number of reasons. “Large distributors cut about 25 percent of their small suppliers in 2009 to 2010 and haven’t invited them back,” said Insel. “Consolidation among wholesalers has accelerated, most recently with **Republic National’s** merger with **Breakthru Beverage**. Four wholesalers now control between 40 percent and 60 percent of the U.S. beverage alcohol market, further narrowing opportunities for wine suppliers.”

**Liza Zimmerman** has been writing, educating and consulting about wine and food for more than two decades. She is the principal of the San Francisco-based **Liza the Wine Chick** consulting firm and regularly contributes to publications such as *Wine Searcher*, *DrinkUpNY* and *Beverage Media*. She has also worked almost every angle of the wine and food business: from server and consultant to positions in distribution, education, event planning and sales. She has visited all the world’s major wine-growing regions and holds the Wine & Spirit Education Trust Diploma (D.W.S.), the three-year program that is the precursor to the Master of Wine.

## The Reality of the Margins and Sales Channels

Many of the wineries represented at the DTCWS said that selling DTC provides them with margins that are roughly 20 percent better than going through traditional three-tier sales channels. At Napa-based **Stag’s Leap Wine Cellars** and **Cask 23**, **Vida DeLong**, California director of consumer sales, said that “gross profit margins for 2017 were 22 percent higher than wholesale gross-profit margins.” **Jessica Kogan**, chief digital officer at Santa Rosa-based **Vintage Wine Estates**, stated that DTC margins are 20 percent more profitable selling direct versus through traditional wholesale channels.

For many wineries, the percentage of DTC sales is also increasing. For Cask 23, DeLong said that the channel accounts for 25 percent of the winery’s total net sales and added that in “2017 net sales were 12 percent over 2016,” a figure that represents all DTC channels.

At Livermore-based **Wente Vineyards**, which opened a tasting room in 1966, DTC sales hover at 20 percent of revenue, according to president **Amy Hoopes**. The channel also grew in the double-digits in 2017, which she noted is at par with industry benchmarks. At Santa Rosa-based **St. Francis Winery & Vineyards** the percentage of DTC sales is half that, at 10 percent, according to **Barbora Hawkins**, director of consumer sales and marketing.

For a large and established winery like Napa-based **Far Niente**, DTC is just another tool in the winery’s sales arsenal. It is one that doesn’t, according to **Mary Grace**, the winery’s vice president of marketing and communications, alienate distributors as wine club sales tend to be the strongest in states where the wines have solid distribution.

**Carol Reber**, CMO at St. Helena-based **Duckhorn Wine Co.**, agreed. “Our experience indicates that the strongest wine brands are available in both the DTC and wholesale channels. Accessibility and discovery are important to us because they’re important to our customers.”



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## Wineries Moving to Benchmark DTC Channel, Margins

### The History of a Sales Channel

Many wineries have been casually selling wines through their tasting rooms since the 1970s or even earlier. It was a straightforward way to promote wines to visitors and grow brands in other markets.

As this channel became more competitive, smart wineries began differentiating what they sold through it. Now it often skews to higher-end wine or completely new SKUs that may be offered only in tasting rooms and to wine club members. Unique SKUs drive interest in and add value to the DTC market. ShipCompliant's Cormier shared that the average price per bottle for DTC wine is \$38.75, which is almost four times the average price per bottle for retail.

"There is a paradigm shift taking place in the wine industry with an increasing number of customers wanting the convenience of ordering their favorite wines online," added DeLong. "There's tremendous opportunity to keep the conversation going" following a visit to a tasting room or joining a wine club.

The number of ways wine is sold DTC are also on the rise, and can include visitor centers, wine clubs, e-commerce sites, special events and more. "We identify and continually modify our programming for each channel with an eye towards extending and maximizing the relationship with each customer," said DeLong.

### What the Future Holds

As the market grows more competitive, the future may not continue to look so bright for the DTC channel. "As the three-tier market access disappears, smaller and newer producers have little choice but to look to the DTC market for their sales," said Insel. She added that concurrently, the number of small wineries continue to grow. TTB reports that the total number of bonded wineries in the U.S. have grown from 9,636 to 12,335 in the last five years.

"It's going to get more competitive and less easy for many wineries, unless there is a surge in wine tourism," added data analyst **Christian Miller**, proprietor of Berkeley-based **Full Glass Research** consulting firm. This would be valid for "regions that are well-known and fairly saturated." He noted, "This may not be an issue of demand, but rather supply if the number of wineries opening for direct sales and focusing on marketing DTC is growing faster than the rate of wine tourists; that means potentially fewer wine tourists per winery overall."

He and Insel also shared some doubts about the potential added cost of selling DTC—more marketing costs, staff hours and pouring costs—wondering if the sales model is really as profitable as it might seem to some wineries.

"Many DTC-focused small wineries don't seem to produce the profitability you'd expect with that increased margin. I've heard various explanations, ranging from sales at small wineries having to carry a larger burden of overhead per bottle to people underestimating the extra cost of tasting rooms, managing clubs, hospitality, etc.," Miller said.

In order to grow this sales channel, **Lesley Berglund**, co-founder and chairman of the Napa-based **Wine Industry Sales Academy**—that sponsored a seminar at DTCWS—advised that wineries should be asking a number of questions about how they are catering to their DTC customers. Far Niente's Grace added that one of them should absolutely be how individual tasting experiences are converting to wine club memberships. **WBM**

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