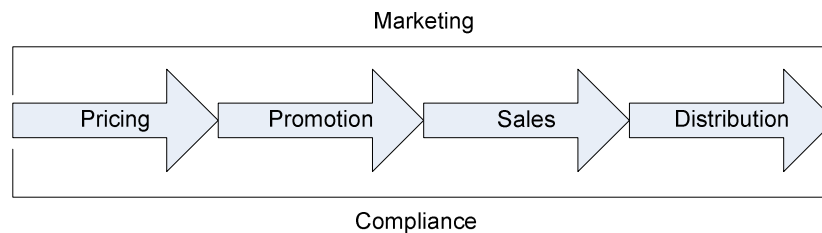


Marketing Small Brands

Today's US wine market is the result of a wave of consolidation among wholesalers, increasing global competition, excess inventories in bulk and case goods, a slow economy, and the rise of the international wine conglomerates.

It is difficult for small and mid-sized wineries to compete with the conglomerate wine distributors such as Gallo, Southern Wine and Spirits, Young's Market, etc. Most small and mid-sized wineries do not have the marketing dollars to spend on product marketing, promotions and the sales structures to effectively compete with the conglomerates. Many have a gift budget that exceeds most small and mid-sized wineries total marketing budget.

What does it take to run an effective wine sales program? **Marketing**, a simple answer but a difficult concept to execute. Marketing is the process of planning and executing the concept, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives



Pricing. A value chain analysis should be conducted for each product to determine price points at the winery, distributor, retailer, and restaurant. Without an effective price strategy it is difficult, if not impossible, for a winery to successfully sell their products and maintain price structures.

Promotion. Generally, promotion is communicating with customers in an attempt to influence them toward buying your products and/or services. In a wineries case, the customers are consumers, distributors, retailers, and restaurateurs.

Sales. Sales can be best defined as the remuneration for goods. So what does that mean? To me, it is all about margin, how much did I make on the sale, anyone can give products away. Determining the actual value of a sale takes into account the following items: cost of goods, sales costs, promotional costs, shipping costs and any other costs related to supporting that sale. If done properly, all of the costs are considered in the value chain. The second item about sales is managing sales channels, wineries have several available to them: direct to consumer, broker, internet, distributor, and sales outside of the US. All of which are viable sales channels that need to be exploited by the winery.

Distribution. Not in the classical wine context but more from a fulfillment context. Fulfillment is the process of getting the product, samples, and promotional material to your customers. A fulfillment channel can be a costly proposition if not established properly.

Compliance. We live in a highly regulated business, often we think of compliance as the activities surrounding a label. But that is only the beginning; we also have to deal with other compliance activities: excise taxes, sales compliance (both in and out of state), licensing, out of state label registration, and monthly reporting to states. All of these activities cost money and have to be factored into your cost of goods and reflected in your FOB pricing.

MDM Distribution

Reviewing the four major tasks discussed above it is apparent that each requires specific skill sets. Most often they cannot be found in a single entity, so a winery begins to hire resources to accomplish these tasks.

Marketing: Marketing companies help determine strategy and placement. Both are very important, wine marketing companies can cost a winery up to \$2,000 month or \$24,000 a year (for basic services), for a 10,000 case winery that is \$3 a case.

There are also costs to develop a web site to support internet sales. This typically costs between \$5,000 and \$10,000 depending upon the "bells" and "whistles" you agree to buy. Most will not provide copies of your website in case you decide to use another company or run the site in-house.

Compliance: This is costly, and many companies are moving towards a flat rate model of \$500 to \$1,000 a month, this equates to \$6,000 a year, or \$0.75 cents to \$1.50 a case for a 10,000 case winery.

Sales Manager. For a winery that produces fewer than 10,000 cases of wine, according to the Winebusiness.com Survey, costs \$82,000 a year. For a 10,000 case winery that equates to \$8.20 a case, for an 8,000 case winery it is over \$10. That is for the base salary, not including benefit costs, salary taxes, equipment, and so on, which runs on the average 35%. So that \$82,000 becomes over \$110,000 a year.

Sales Managers most often hire at least one sales representative to support their region, according to the winebusiness.com survey the cost per sales person is \$40,500 or \$5 a case if they sold every case of wine you make. Most often 15% of the wine is sold in the home region which means the actual cost of the regional sales person is over \$20 a case. Assuming they also work at the tasting room 50% of the time, the cost is lowered to \$10 a case.

Distribution. It takes time and effort to coordinate fulfillment. Most wineries use an office person to accomplish this. Again using the winebusiness.com survey, the annual costs of an office worker is \$34,250, assuming 50% of their time is on fulfillment, billing, collecting, and other customer related activities that puts the cost per case at a little less than \$2 a case.

So where is this all going? Well for a 10,000 case winery, about \$26 dollars a case is going towards supporting your sales. And, because it is done by several different people and organizations, it is often fragmented.

What are your options? For a less than 10,000 case winery there are only five:

- Get a large distributor to pick up your products and risk getting lost in their book or lowering your prices to pay for their promotion activities.
- Do it your self, if you have the time and skills necessary to accomplish all the tasks.
- Do what you can and hire the rest of the skills you need.
- Hire a full-service company that provides all the services, if you can find one.
- Hire a company dedicated to small brands and deploys cost-sharing across several wineries.

This is the MDM-DWG Solution.

MDM-DWG is dedicated to providing full services to our small and mid-sized wineries. Our goal is to represent less than 10 brands and through cost sharing reduce the overall all costs by 70-80%, while giving them a full service solution. MDM-DWG contributes industry expertise through every phase of your marketing initiatives. From planning to strategic implementation, we're quick to respond with a wealth of resources and services designed to fit your needs. Our goal is to partner and to help you succeed.