STANDING OUT IN THE CROWD:
MARKETING AND BRANDING STRATEGY FOR THE SMALLER WINERY

DON SCIGLIMPAGLIA
VISITING PROFESSOR, MARKETING
MIDDLEBURY INSTITUTE OF INTERNATIONAL STUDIES AT MONTEREY
CALIFORNIA STATE UNIVERSITY SAN MARCOS

AIRON ELIZABETH WHITT
MBA CANDIDATE, SOCIAL ENTERPRISE & FINANCE
MA CANDIDATE, INTERNATIONAL POLICY AND DEVELOPMENT
MIDDLEBURY INSTITUTE OF INTERNATIONAL STUDIES AT MONTEREY

Abstract

Businesses around the world know the power of marketing, that they must engage the customer at a multitude of levels and attack distribution channels with vigor. While this approach is widely accepted and used in a broad range of industries, the world of wine is a bit more delicate. How do smaller wineries promote their wines legally without overwhelming the customer? How can these smaller wineries get access to the market dominated by a few powerful giants? And what are the winery specific tactics that have been proven to engage customers while making sales, and keep them as customers long term? The following analysis aims to tackle these questions.

Introduction

Consider the case of this small winery. Twin Oaks Valley Winery in northern San Diego County is a typical small, family operation, run by Malcolm and Kathryn Gray, two former Silicon Valley engineers. It was purchased by the current owners in 2013 and is comprised of production (crushing and bottling equipment) facilities, storage and three acres of hillside Syrah grape vineyard. The winery is now producing roughly 400 cases of wine a year, but the goal this year is to increase to 600 to 800 cases. The Grays make seventeen wines under two labels: single-grape varietals are bottled under the Twin Oaks Valley Winery label and wine blends are produced under the San Marcos Winery label. It has just opened the property's first wine-tasting room in a warehouse nestled next to the grapevines, offering five 1-ounce pours for ten dollars. It has been trying to expand the company's wholesale wine business, from one account last year to now ten locations countywide. Most of the visitors who showed up for the initial tastings were neighborhood residents who arrived on foot, by bicycle and even on horseback. The challenge for The Grays and Twin Oaks Valley Winery, and thousands of others like it, is how to stand out in the crowd of small wineries and how to grow their business.

The Smaller Winery

The wine industry is dominated by a few key producers with large portfolios. In the United States, there are four major players, including E & J Gallo which accounts for more than a quarter of all domestic wine sales and is the second largest producer of wine in the world. Other large wine producers include: Constellation Brands, The Wine Group and Treasury Wine Estate. These four major wine producers account for approximately half of the global industry's total revenue (Karlsson 2017). However, the focus of this study is the smaller winery. Wineries range in size, with relatively few (65) large operations accounting for a substantial volume of production (over 500,00 cases per winery per year). Small wineries are categorized as producing 5,000 to 49,999 cases per year, very small wineries produce only 1,000 to 4,999 cases per year and limited production operations produce under 1,000 cases per year. In this study, smaller wineries are defined as those with production of less than 50,000 cases annually. These wineries are miniscule compared to the giants. Smaller wineries account for 97 percent of all wineries in the US, yet they account for only a small percentage of total wine production. Thus, it is vital for the smaller winery to know how to compete in a market saturated by a few, dominant producers. The marketing and branding strategies suggested here will be key in helping smaller wineries to self-differentiate in this extremely competitive and somewhat opaque marketplace.[1]

The Wine Industry in the United States

Wine is an immensely complex product, coming in many varieties, vintages and styles from all over the world. It can range from the indomitable 'two-buck Chuck,' Trader Joe's classic Charles Shaw brand wines (made by Bronco Wines) originally retailing for $2.99, to a bottle of Screaming Eagle Cabernet Sauvignon 1992, sold at auction in Napa for $500,000 in 2010. No matter how complicated wine can get, according to Steve Charters (2006), a lecturer in Wine Studies and Wine Marketing, all wine can be divided into two broad categories: bulk wines and premium wines. This differentiation is important to any discussion of wine marketing as the two are historically very different products. Indeed, the marketing of these two categories, and attempts to create "perceptual space" between them is very different. The wine industry in the United States is extremely large and has grown steadily over the past five years. The total value of domestic wine sales is estimated to be $62.2 billion, with total consumption nearing 800 million gallons. Wine's market share of the total alcoholic beverage industry continues to increase, reaching as high as 17.3 percent in 2017. In 2018, there were 9,654 wineries in the US, found across all fifty states (King et al., 2013). Yet, production is heavily skewed towards California, with 89 percent of all domestic wineries are located in that state. Washington, Oregon, New York, and Texas account for 9 percent, with all other states making up only 2 percent of the total.[2] Contributing to the increased volume of wine sales, consumer preferences have been shifting away from beer toward wine and spirits of all price ranges over the past five years (Doering 2018). As noted in the Wall Street Journal (Gaiter and Brecher 2004), "... Americans are getting past the snobbery -- and discovering wine's simple pleasures." Wine sales are highly related to demographics, economic conditions, and consumer taste and preferences. A study by Silicon Valley Bank, a leading lender to the wine industry, analyzed wine consumption by age cohort. Boomers (age 51-68) at 38 percent

[1] See Appendix, Figure 1: Number of wineries in the US in 2018, by production size
[2] See Appendix, Figure 2: Wineries are in all 50 US States, Figure 3: Total Number of Wineries in the United States, 2009 to 2018

make up the largest share, followed by Gen Xers (age 39-50) at 36 percent and Millennials (18-38) at 19 percent. Additionally, that same study shows that wine consumption has increased significantly across these three age cohorts. But, significantly, the proportion of demand by these latter two cohorts is increasing.[3] Clearly, the wine industry is changing, to the benefit of some wineries more than others. The most challenging developments encountered by smaller wineries are discussed below.

Figure 1: Number of wineries in the US in 2018, by production size

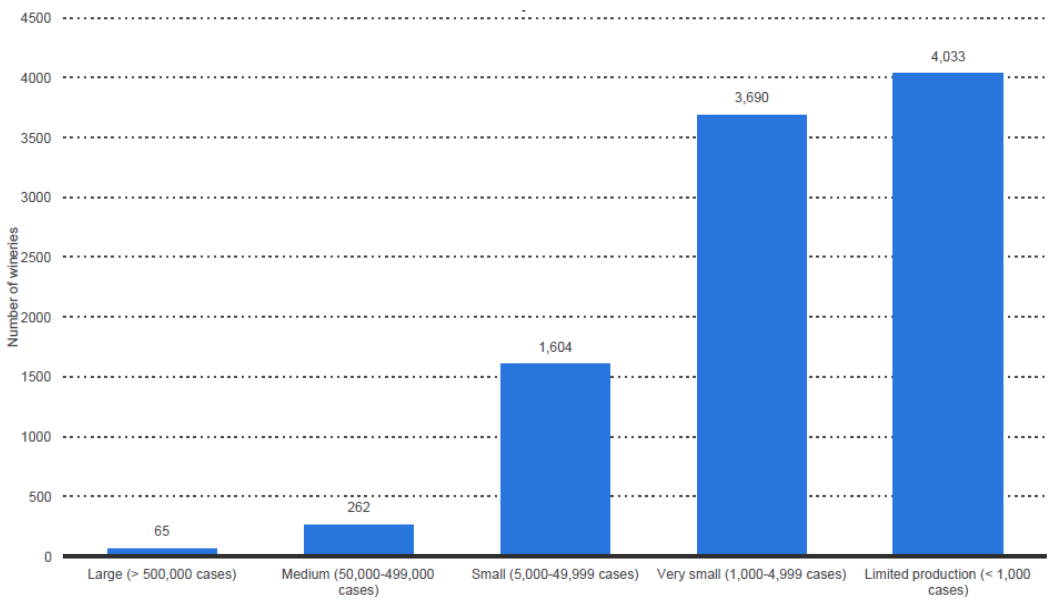
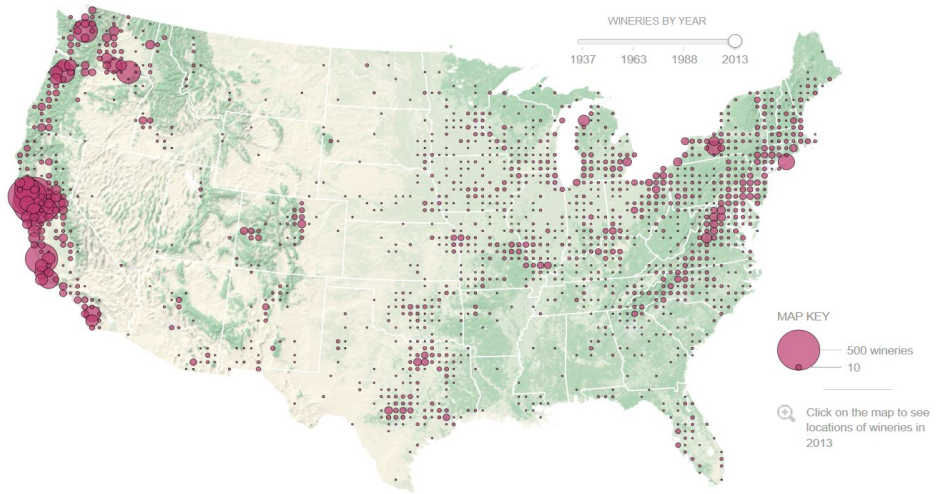


Figure 2: Wineries are in all 50 US States



[3] See Appendix, Figure 4: Cohort share of wine purchased, and Figure 5: Alcohol consumption preferences by generation

Figure 3: Total Number of Wineries in the United States from 2009 to 2018

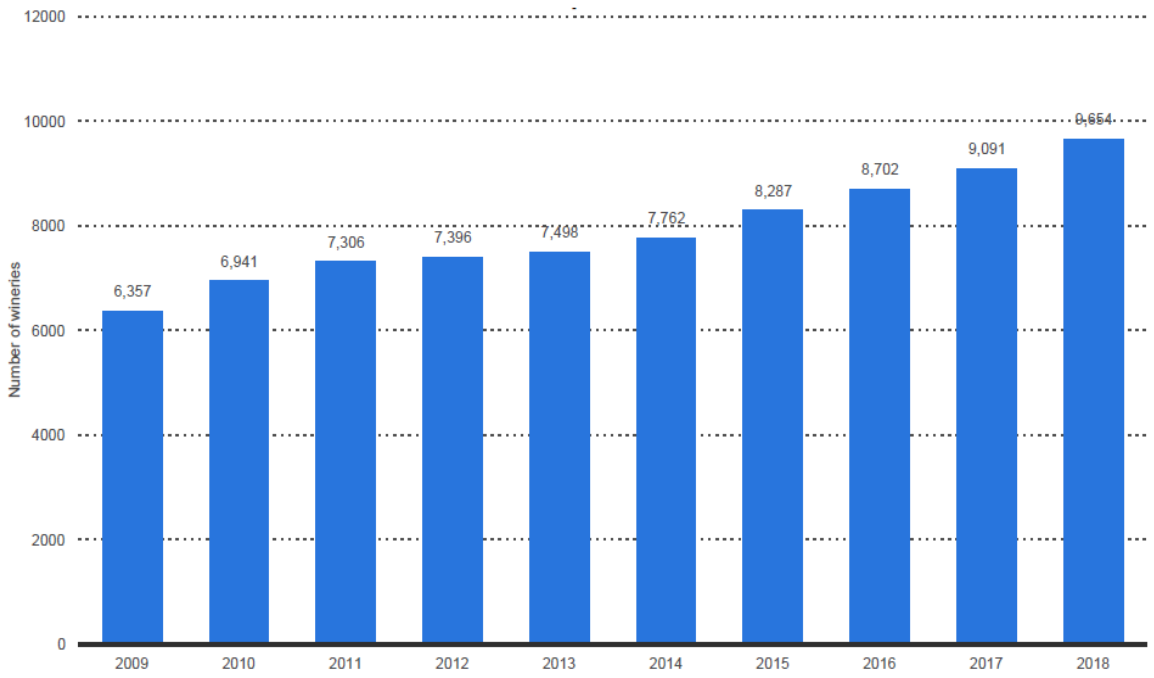


Figure 4: Cohort share of wine purchased

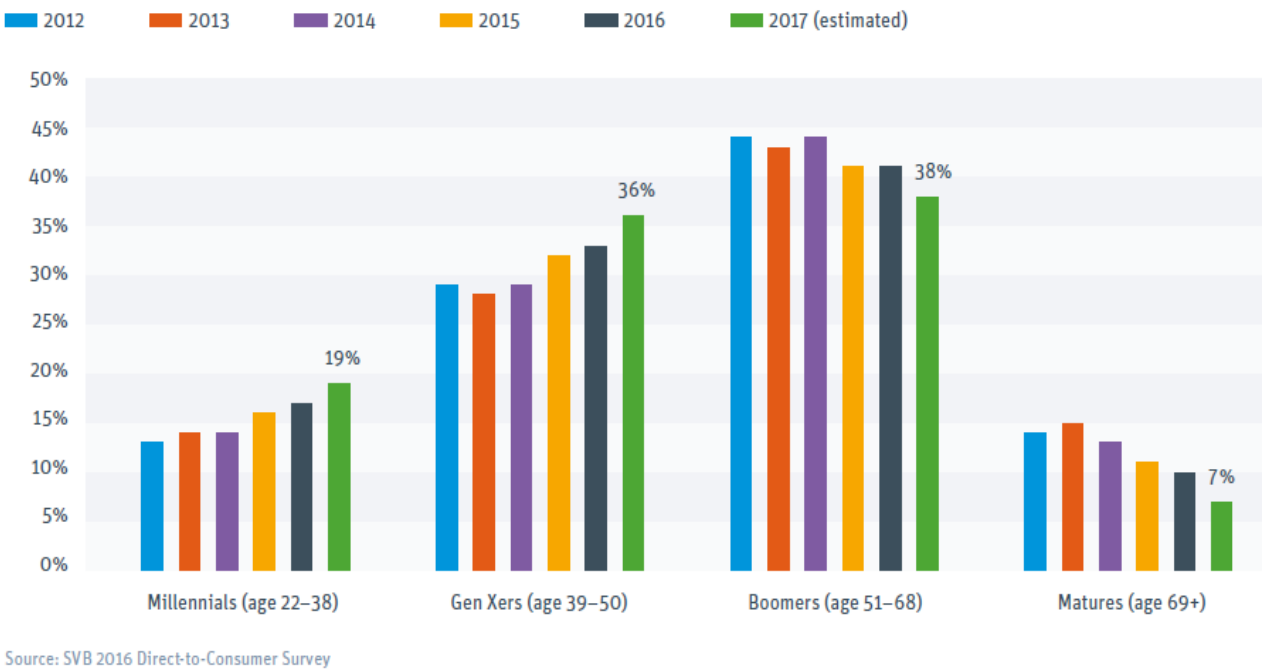
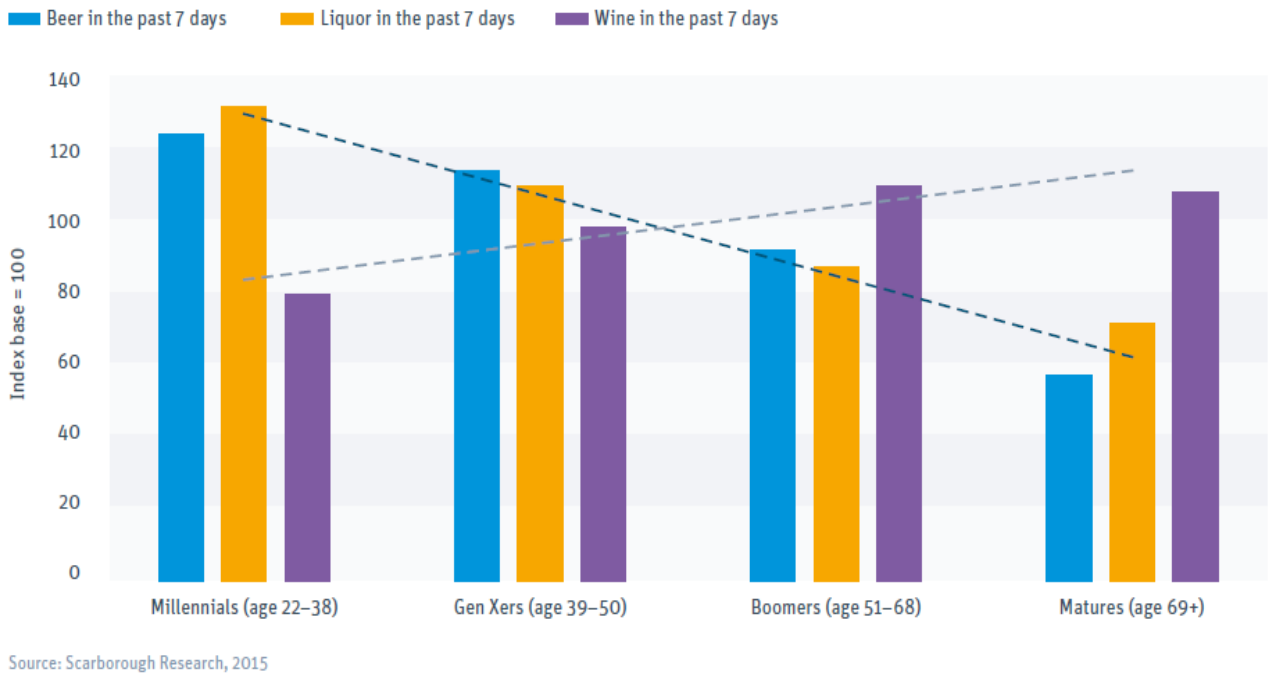


Figure 5: Alcohol consumption preferences by generation

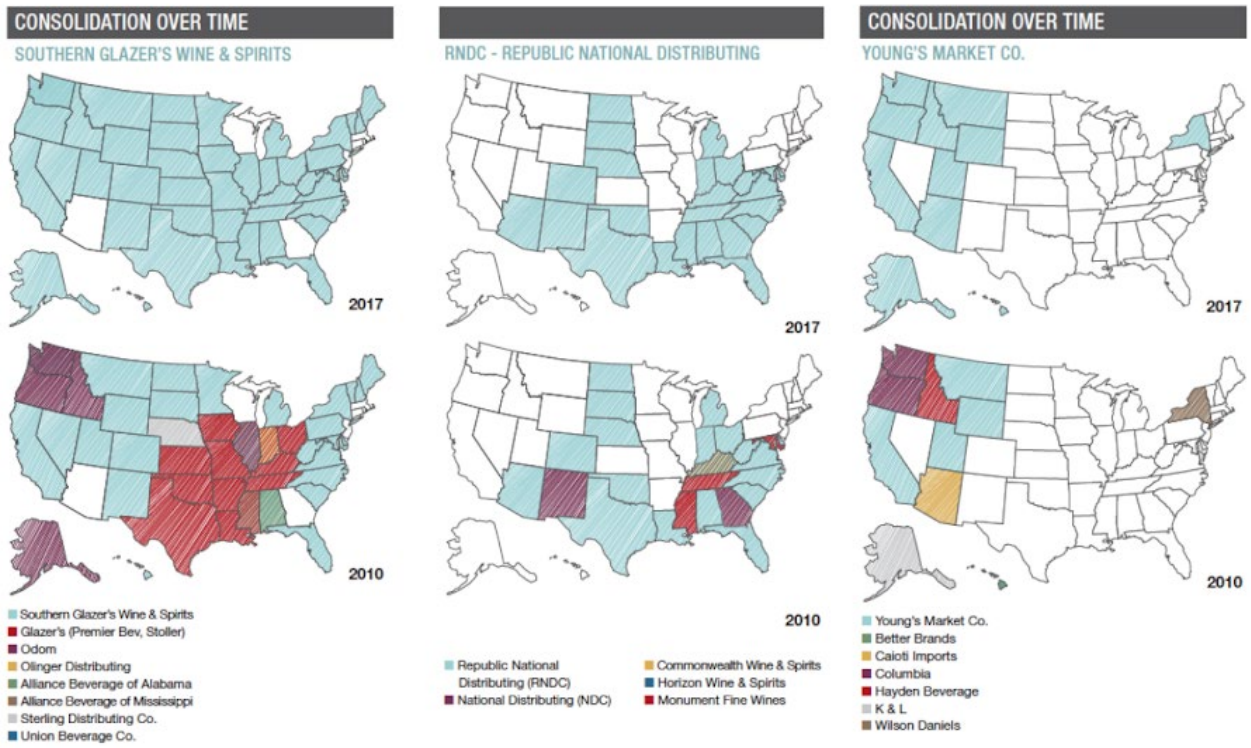


Distributors: Diminishing in number, growing in power

A major challenge for the smaller winery is finding a distribution channel to the final consumer. The majority of larger wineries have multiple channels of distribution through wholesalers, brokers, or distributors that allow them to give 50 to 60 percent discounts to wholesalers and still maintain a sensible profit margin (Zucca 2018). Although the number of US wineries has drastically increased, the number of distributors has shrunk from 3,000 in 1995 to 1,150 in 2018. If the market for wine and number of consumers are on the rise, what explains the decline in distributor numbers? Some of the country's most well-known distributors have merged together to create "power in numbers," allowing them to become stronger competitors in the wine and liquor distribution market. If one merger entity is a specialist in traditional old-world wines and another is a specialist in new-world blends, together their portfolio is a richer contribution to their combined client base. Additionally, by merging, distributors' sales and geographic distribution increase, resulting in greater market reach. Currently, four major distributors move most American wine from producers to retailers and restaurants regionally and across the United States. They control roughly 60 percent of the market: Southern Glazer's (a recent merger of Southern Wine and Spirits and Glazer's), with $16 billion (29 percent); Breakthru Beverage Group, with $7.2 billion (14 percent); Republic National Distributing Company (RNDC), with $5.8 billion (11 percent); and Young's Market Co., with $3 billion (6 percent). Southern Glazer's distributes more than 150 million cases of wine and spirits annually, employs more than 20,000 people, and operates in 41 states.[4]

[4] See Appendix, Figure 6: Wine distributor consolidation over time

Figure 6: Wine distributor consolidation over time



How Distributor Merger Affects Smaller Wineries

As the distribution structure has consolidated, Porter's Five Forces schema provides insight to the situation facing smaller wineries. These 'five forces' determine competitive intensity of an industry (Porter 1979). They deal with the power, or threat, posed by new entrants and of substitute products, the bargaining power of customers and of suppliers and the overall competitive intensity of an industry. In this case, smaller wineries are in an extremely competitive industry, which drives up the cost of doing business. New wineries as competitors emerge on a regular basis. New competition entering the market can be mitigated by a strong and consistent brand image, but smaller wineries must also consider how they distribute in this ever-changing time of distributor consolidation. Supplies and cost of crushable grapes are uncontrollable. Eventual consumers can, and do, choose from an array of choices. This is why a winery's brand equity is so vital. While wine consumers may be able to find a similar product at a cheaper price, very few wineries can replicate a well-done brand image or story. It is important for smaller wineries to define their brand early on and continue to create a cult following and personal connections with their clients that is difficult or impossible for their competitors to replicate. Notably, a major challenge has been the consolidation of distributors, which has allowed them to amass great control over the industry. The merger of distributors is a clear example of how buyer power can impact the smaller winery. With an increase in high buyer power distributors, the smaller winery must respond by engaging with the right audience. Otherwise, how can they continue to sell at a competitive price if the buyers are decreasing and suppliers are increasing? Smaller wineries must make an effort to *stand out* in

their industry with creative marketing and branding strategies, strategically priced products, and proper customer segmentation.

Producers are Padding their Portfolios

Distributors are not the only entities using their size to increase their market share. A deeper look into the wine industry shows wines that appear to be from small producers are not that at all -- these apparent 'small wineries' are often part of the portfolio of a larger producer. This strategy is also seen elsewhere in the alcoholic beverage industry with major beer companies acquiring craft brewers, as evidenced by Anheuser Busch's acquisition of Goose Island, Blue Point, 10 Barrel, Elysian, Golden Road, Four Peaks, Breckenridge and Devils Backbone Brewing (all of which maintained their original brand name and brand identity). Recently, Ballast Point, a San Diego craft brewery founded in the 1990s whose beers are now sold in 30 states, was acquired for roughly $1 billion by beverage conglomerate Constellation Brands. While boutique wineries are still emerging frequently, other larger domestic wineries are consolidating. Kathleen Willcox, a journalist of food, wine, beer, and popular culture recently noted, "…in 2016 alone, Jackson Family Wines snapped up Penner-Ash Wine Cellars and Copain; GI Partners gobbled up a majority share in Far Niente Wine Estates, Nickel & Nickel, Bella Union, EnRoute, and Dolce; and E. & J. Gallo bought Orin Swift Cellars—among others notable acquisitions (Wilcox, 2018)."

Distribution channel trends: The rise of large retailers - brick and mortar and online

Retailers are another challenge for small and medium wineries. In the United States, Costco dominates wine retailing. In 2015, for instance, Costco sold $1.69 billions of wine, which accounted for as much as four percent of all the wine sold in the country by dollar volume. Additionally, that chain may do as much as $3 million in wine sales per store. Kroger, a massive retailer, has six times as many stores in the US and has similar wine revenue to Costco (Curmudgeon 2016). Since chains like Costco and Kroger are so massive, they are able to heavily discount big wine brands; something that is not possible for smaller wineries. Consequently, thousands of smaller wineries are left to find their own way to market, and many of these small and medium wineries produce truly phenomenal wines. Powerful retailers are also found online. Wine.com is considered the nation's largest online wine retailer and is regarded by many wine experts as one of the best places to order wine online (De Santiago). Wine.com has built winery relationships for decades giving consumers access to everything from big-name, critically-acclaimed wines to small production, unique bottles from every region, varietal, and price point. However, the same challenge still holds true in this market. Smaller wineries must again adhere to the three-tier system of producer to distributor to retailer. If these distributors do not find value in the small production available from these smaller wineries it is almost impossible to get represented on a site as large as Wine.com (2018). While the world of online retail is slowly opening up to the smaller winery, accessing distribution and representation still remains a challenge for the smaller winery, making marketing and branding even more important to helping these wineries find a conduit to consumers. The following offers solutions to these challenges, asserting that marketing and branding are crucial for a smaller winery's successful direct-to-consumer strategy and how marketing and branding in wine clubs, tasting rooms, and social media can help smaller wineries engage with their customers on a deeper, lasting, and more profitable level.

Solution 1: Developing marketing and branding strategies for the smaller winery

Sometimes used interchangeably, the delicate balance between branding and marketing is a game that many small businesses must play in order to reach their desired market share. Customer Relationship professional Russell Cooke argues:

> "Branding is to a company (winery) as personality is to a person. Branding is as much inward as outward-facing. If you have a strong, trustworthy brand, your employees are happier, more motivated, and more loyal. Branding is the allocation of resources to promote awareness of your brand, products and services. The purpose of marketing, in a nutshell, is to communicate your brand's value to potential customers (Lay 2018)."

Similar to a one's personality, a brand can and should evolve and grow with the business. If done well, eventually this 'personality' or brand image becomes so well known that consumers recognize it alone, without the need for introduction. Just as dancing silhouettes over colorful backgrounds will forever be synonymous with the early advertisement of the Apple iPod, a winery must create a brand so strong that consumers sleep, eat, and literally drink it. It is crucial to remember that branding and marketing rarely produce desired results without in-depth planning, the initiation of branded experiences, constant training and reinforcement of strategies, buy-in at all levels, and constant update and reevaluation of the brand image and message. Monique Ouellette, a marketing expert, suggests succinctly, "... branding is the truth, reputation, and value of a small business's image, ethics, and craftsmanship. It is the stamp or logo on a product that becomes a household name and trusted brand. Marketing is the sales driven tactic which stands behind branding (Lay 2018)."

A perfect example of a marketing and branding success story in the wine industry is Yellow Tail, a brand of Australian company Casella Wines. Yellow Tail is an excellent example of a winery using classic marketing strategy. It was created as an export brand in 2000. The following year Casella partnered with the American firm W.J. Deutsch and Sons to market and distribute its new brand. Beginning with roughly 100,000 cases, in a short time it was able to become the largest Australian import and one of the leading wine brands in the US. In two short years it had become the leading seller among red wines. Part of the reason for the success of Yellow Tail is that Casella and Deutsch understood the great majority of American wine drinkers are relatively unsophisticated about product and brand choice. Therefore, their strategy was to focus on the vast middle market, between budget wines and premium wines. The approach was to deliver a wine product that was not only easy to drink, but also easy to recognize at the retail level. Branding, with the distinctive kangaroo-like rock wallaby graphic, was integral.[5] Beginning with a basic red and a basic white, the bottles used distinctive colors to designate varietal. As the number of Yellow Tail varieties grew, it was able to create 'product blocks' in store merchandising with its color coordination of bottles. The brand was promoted as a 'fun,' unpretentious wine in print and other media. As noted, it was priced *between* budget and more serious wines. Distribution was established with major retailers, including Costco. The brand raised involvement at the retail level by providing sales promotion materials, including Yellow Tail branded clothing items. Casella created a new customer experience for the target wine drinker: ease of selection, ease of drinking

[5] See Appendix, Figure 7: Yellow Tail wine branding is memorable

and a sense of fun and adventure. Overall, it was able to develop a classically successful 'blue ocean' strategy, going for a relatively uncontested marketplace, while others fought for survival in blood-red water.

Figure 7: Yellow Tail wine branding is memorable

Another example of a good, or even great, brand story is 19 Crimes, also an Australian wine. This brand demonstrates the power of understanding segmentation, targeting and positioning, and then developing a brand to effectively reach its target audience. Launched by Treasury Wine Estates, the brand targets legal drinking age Millennials, who now make up nearly one-quarter of the population. Not only are Millennials 77 million strong but also, they are predicted to account for almost 30 percent of total consumer product dollars spent by 2020. Specifically, the brand targets legal drinking age Millennial men. The product persona is that of a 'bad boy rogue.' The brand name celebrates the spirit of the men and women exiled from 18th-century Britain to Australia, based on their having committed at least one of 19 crimes meriting punishment by 'transportation.' In addition to using sepia-toned mugshots of actual prisoners on the black bottles, the brand included corks imprinted with the prisoner's crime.[6]

[6] See Appendix, Figure 8: Examples of 19 Crimes branded corks

Figure 8: Examples of 19 Crimes branded corks

While larger wineries may be expected at this point to have brands that speak volumes, smaller wineries are jumping on board as well. The Infinite Monkey Theorem is a brand that speaks to Millennials the way 19 Crimes speaks to bad boys. Now in forty-one states with its canned wines and ciders, The Infinite Monkey Theorem (TIMT) sold 5,000 case-equivalents worth of cans in 2013. It shipped 12,000 cases worth in 2014, and in 2015, cans were about 75 percent of their total production (Peterson 2015). However, beyond selling wine in cans, TIMT describes themselves as, "an urban winery operated by one mad scientist working out of a back alley in the RiNo Art District of Denver and SoCo District of Austin (2018)." That is a very different message and feel than traditional wineries and tasting rooms worldwide. Their brand image can be seen in the chimpanzee-themed cans whose motifs bleed over to the hip and graffiti splattered tasting rooms in both their Denver and Austin wine production centers that can be rented out for anything from daytime corporate meetings to classic bachelor and bachelorette parties. TIMT truly takes its banding focus further by stating that they believe the culture surrounding a winery is what helps define the wine's quality. They note, "... the wines are not only expressions of the local fruit, the process, and the personality of the winemaker, but also expressions of the people drinking the wine. It is a product born out of the community and thus representative of the community." Theirs is a community that's hip, artistic, and drinks their wine from cans.

But what is next after a small winery defines and develops its brand? How can they turn their stories into profit? The smaller wineries must strengthen and foster direct to consumer strategies that turn fans into lifelong brand loyalists.

Solution 2: Strengthening smaller wineries direct-to-consumer (DTC) strategies

Direct-to-consumer (DTC) sales represented 49 percent of wineries' revenue in 2012. But, by 2017 it had increased to 61 percent (Pellechia 2017). Due to higher production costs and the challenge of finding a distributor, smaller wineries typically cannot afford the large discounts required by distributors and retailers or wholesalers. Therefore, increasingly, smaller wineries are opting for DTC methods, specifically tasting room and wine club sales (Zucca 2018). Conventionally dominated by wine tasting rooms, recent easing of wine shipping laws in the US and ease of access to customers through the Internet has increased the opportunities of direct-to-consumer sales for small wineries (Teaff et al., 2005). Beyond the use of the more traditional tasting room or wine club, the Internet is also becoming a key player in the DTC market. Liz Thach (2017), a professor of wine and management at Sonoma State University, states that "... about four percent of wine in the US is sold online, as opposed to about twenty percent of the wine sold in China. It's an area primed for robust growth." The online market requires much less overhead than other DTC channels and it opens doors to more locations for sales. One expert analyst notes that online sales "will be the fastest-growing channel for the wine market, for sure. The industry has to make the mental switch from saying 'this is impossible' to 'this is inevitable (Wilcox 2018).'" Sales data support this claim. Winestyr is an example of a new type of intermediary that has formed to assist smaller wineries in getting their products to the DTC market. It is a licensed wine shipper that leverages smaller winery partners' DTC licenses to ship wine on their behalf. Since some wineries are only licensed to ship wine in in a limited number of states, due to various federal and state regulations (sometimes referred to as 'Balkanized' wine shipping laws), the Winestyr.com website was developed with proprietary software that ensures legal compliance for each state. Still, to comply with regulations, each winery must approve that individual orders are in compliance before Winestyr can ship the wine on its behalf. Additionally, Vinbound Marketing, a marketing agency that provides wineries with a full range of digital marketing services to grow tasting room traffic and sell more wine, recently released a list of their recommended winery ecommerce solutions. Among the list are VinoShipper, which provide wineries with shipping permits to most states overnight and will collect and report all state taxes on their behalf and VineSpring, an ecommerce solution that allows for online sales, allocations, wine club management, promotions, and streamlined ordering and checkout. These online resources are helping small and medium sized wineries move into a market that was once thought of as impossible and turning it into a very real and lucrative reality.

The Power of the Tasting Room

While the Internet has provided a great opportunity for market expansion for smaller wineries, the tasting room continues to be an important branding and sales opportunity. Recently, consumer traffic at wine tasting rooms has increased, resulting in growing research into this subject area as producers seek to learn more about wine tasting room customers and identify ways to capitalize on the additional revenue generating opportunities. Research has shown that small and medium sized wineries have become financially dependent on direct sales linked to wine tasting rooms with an average of 70 percent of winery sales coming from the tasting room (Adams 2016). For example, wine tasting room visits in the US increased eight percent from 2011 to 2012 (Fisher (2013). According to Fisher (2013), "... forty-five percent of total sales for wineries in California,

Oregon, and Washington come from the tasting room, as do sixty-eight percent of total sales from other state's wineries." Tasting rooms are particularly important to small and medium wineries, as they must rely on alternative methods that differ from those used by larger wineries with larger distribution channels. Research by Berglund and Tinney (2008) concluded that tasting rooms are crucial to the success and profitability of small wineries as 70 percent of sales from US small wineries are generated through tasting rooms. Tasting rooms provide a marketing and sales channel to move the bottles necessary for small wineries to operate in an increasingly competitive market.

A tasting room is an experience. Successful wineries understand and enhance the experience and hopefully capitalize on it. They offer consumers a value-added experience not offered by traditional retail outlets. The 'cellar door,' a term used to refer to the inside of the tasting room, helps the customer view innate, natural or essential aspects of the wine, rather than the external cues, such as labels and print advertising, that may exist in traditional retail outlets (Adams 2016). Thus, it is unequivocally important to create a memorable experience that simultaneously promotes a winery's brand story and elicits sales to wine tourists. The tasting room is one of the only times when a consumer comes directly to the source with a predetermined desire to engage with the winery and its products. Consumers visit a tasting room in order to *taste* the product, and wineries can take advantage of this captive audience in more than one way. Marketing savvy wineries use their tasting rooms as opportunities to promote their brand story and connect with their new customers personally and digitally. For this to happen, it is essential that the winery have a refined brand story to tell, especially for smaller wineries that do not have access to the same promotion and distribution that larger wineries do. Tasting rooms that truly impact the senses of customers and share with them a concise and defined brand story will ultimately sell wine. Unsurprisingly, that can be challenging and time consuming for the smaller winery – customers want to connect to their purchases, and nothing does that quite like a good story.

Tasting room recommendations

Author and wine enthusiast Steven Lay (2018) outlines what he calls, "Tasting Room Effectiveness: 101" where he recommends branding and marketing best practices for tasting rooms. Whether the tasting is free, charged, or one by appointment only; whatever the business model, the *brand experience* is most important. As long as a brand is well defined and present, a small winery with humble origins can trump a well-appointed tasting room with an underwhelming brand story. To be successful, customers must leave with a feeling of connection to the winery's brand. A winery does not have to have chic facilities, it only needs to follow the recommendations as outlined below to start building a loyal following. Lay suggests that the winery operation:

- Meet customers at the door and provide them with a brochure about the winery and its management, as well as an explanation of the winemaker's philosophy and approach to the product. To best engage with the customer, this information should be presented clearly, concisely, and accurately with a sense of pride.

- Realize visitors are buying more than products; they are also buying an experience.

- Employ polite staff who are not only are knowledgeable about the wines their winery produces, but also are aware of and are able to convey the winery's brand story.

- Remember that visitors are often more interested a well-told story that they can connect with than with the product itself.

- Provide tasting room visitors with seating options to avoid a 'belly-up-to-the-bar' or standing only service, which has been shown to diminish the value of a tasting room by more than fifty percent.

- Understand that branding and marketing should work together to cultivate sales, which in turn lead to more wine club members, new vintage follow-on sales, and the ability to have a conversation with your customer via future direct mailings or other forms of collateral. The tasting room is vital in establishing distribution channels for future marketing.

- Know the vineyards from which their grapes come and why that is important.

- Employ staff who are proud of the product and who understand and are able to communicate back to management what customers like and why, so that future marketing caters to the audience.
- Treat customers respectfully and at their level of experience. The tasting room is not a place where the staff can show off their knowledge of buzzwords and technical points. It is a place for the customer to get the information they need in a way that is meaningful to them.

- Ensure that winery owners and tasting room managers regularly compare brand perception with brand reality, thus allowing the brand and marketing strategies to change and develop over time.

- Send customers on their way with a farewell that makes them not only feel good about their visit and purchase, but also makes them want to return.

Wineries that incorporate the above recommendations into their tasting rooms will encourage current visitors to buy more and also to share their experiences with others, post tasting. Additionally, a well-run tasting room that displays the winery's core values gives visitors a long-term connection to the winery's brand, encouraging repeat visits and purchases.

As an example, Alpha Omega Winery is a relatively new winery focused on direct sales, particularly through its tasting room. It opened in 2006 in a space formerly occupied by Quail Ridge Winery, in Napa Valley, California. As part of the purchase, it acquired a public tasting permit, a real advantage, since Napa County restricts most new wineries to appointment-only visitors. Alpha Omega was conceived to be consumer-direct from the beginning. Partner Robin Baggett had previously started Tolosa Winery in San Luis Obispo; that winery depended on sales through conventional distribution. The experience convinced Baggett that he didn't want to depend on distributors. Now, impressively, 90 percent of Alpha Omega's sales are direct. According to Baggett, "the key is good wine and good people." He concerted his efforts on hiring quality tasting room staff who are focused on sales, emphasizing a team approach. The key to success is obviously

the tasting room, since that's also where wine club members are recruited. "People won't join a wine club unless they've tasted the wine," he says. "Few join the club except at the tasting room." Because of the importance of the tasting room, it was vital to consistently attract new visitors. The winery embarked on developing relationships with those who could help, including other tasting rooms, transportation companies, limousine drivers, concierges, destination management companies, restaurants and hotels. It also arranged events at the winery, encouraged wine club members to visit and offered tours and tastings for parties of ten at charity auctions. The winery's sophisticated point-of-sale system allows it to track visits by specific limousine drivers, who receive incentives. Alpha Omega does no advertising but makes sure it is on all the maps it can be. Additionally, the winery is open from 10 a.m. until 6 p.m. -- later than most and resulting not in problems, but in additional traffic. The focus is on hospitality and creating a memorable experience and salesmanship. Managers enforce a rule to greet visitors with a smile within 15 seconds and make them feel welcomed. They avoid the snobbishness and intimidation that are often barriers in tasting rooms, turning the experience into a subtle interview. Every visitor is treated equally. They have daily sales goals and team incentives. The winery sets sales goals based on historical data and expected business each day. If those goals are exceeded, the whole team on duty shares in ten percent of the excess. Because this is calculated daily as well as weekly, employees earn immediate feedback. This practice encourages the staff to take good care of late-arriving guests. Sales are up significantly, and employees have been meeting their goals often this year. Employees receive a $20 bonus for signing wine club members, paid after the member stays in the club for two months. There are now 3,000 members, with 30 to 40 new sign-ups each week, all credit to the tasting room. According to Baggett sales last year were up 30 percent, and so far, this year, they are up 70 percent (Franson 2010).

As the above example demonstrates, consumers buy the brand first, and the marketing story second. The brand lives on, but the marketing story will change over time and with more information inputs (Penn 2018). There is no substitution for the in person, one-on-one buying experience. There is a reason why marketing professionals across industries constantly visit the customer – people want connections. Customers want to be connected to *their purchases*, connected to *the story,* and connected to *the seller*. Creating and fostering engagement long term is what creates brand loyalists who will continue to be marketing missionaries for a winery.

The Wine Club: Engaging customers after the tasting room

As important as a tasting room is, the wine club is the profit maker. Zucca (2018) states that, "... the optimum balance between tasting room and wine club sales is also difficult to determine. The profit margins for both are remarkably similar, but the cost of developing a tasting room is much higher than developing a wine club. Further, the day-to-day management a tasting room is far more expensive in terms of both expense and owners' time than a wine club, whose management can be turned over to one employee." If the role of the tasting room is to create brand loyalists, then the wine club is the ultimate financial demonstration of brand loyalty.

A wine club is, "an agreement between a winery and consumer that the consumer will purchase a set amount of wine on a regular basis. The consumer selects the number of bottles, type of wine and shipping schedule, and allows the winery to charge their credit card. In addition to receiving shipments of wine on a regular basis, the consumer usually receives other member benefits, such

as discounts on additional wine purchases, invitations to special events, and free tastings at the winery tasting room (Thach, 2017)." Wine clubs are one of the most profitable direct-to-consumer (DTC) channels, and according to the WBM/SVB 2017 Tasting Room Survey, the average consumer stays in a wine club for 30 months. It is more profitable to keep an existing wine club member than to seek a new one, showing the power of customer loyalty in the world of wine clubs. In order to keep these existing club members, wineries typically incorporate a number of perks and discounts into their wine club offerings to entice wine aficionados into membership, such as automatic shipments, wine discounts, free tastings, and private event invitations. But the wine clubs do differ on the number of perks offered, the amount of shipments per year, the number of choices offered, pricing of the shipments, and the number of discounts given. A recent study of wine clubs from wineries in Riverside and San Diego Counties showed that the majority offered free tastings to their members. Sixty-five percent offered a twenty percent discount on wine and other merchandise.

Teaff, Thach and Olsen (2005) researched the most effective characteristics of wine clubs. They suggest designing a wine club that would be attractive enough to lure wine lovers of different levels. They also indicate there are two major types of wine clubs, automatic and a la carte. Automatic wine clubs have the consumer provide their credit card information and the customer agrees to periodic wine shipments. The shipments continue until the customer elects to discontinue the service. There is an array of options that vary based on frequency of delivery, cost, and shipment contents. In an a la carte wine club, customers do not need to provide their credit card information to the winery, rather just a mailing address and email information. When special offerings become available for purchase, customers are contacted and invited to take part. The special offerings are usually offered at a substantial discount to make them even more enticing to their clientele. That study also suggested that the best way to attract a larger array of wine lovers is to establish a multi-level pricing structure in your wine club, whether it is the automatic or a la carte style. The names should be easy to distinguish by the customer and allow them to identify the level best suited for their individual needs. The most common way to differentiate club levels is by price point such as entry level, premium, and luxury priced wines. Other wine clubs distinguish levels by themes such as the 'Adventurer's Club,' and still others organize by types of wine. Ten percent of wine clubs in the study allowed member to choose their own varietals, such as Pinot Noir or Chardonnay (Thach 2017). Teaff et al. (2005) also accentuate the importance of member benefits. With six categories to choose from when identifying the personalized benefits to incorporate into the wine club. These six are access to rare wines, special events, custom shipments, value-added material, charitable support, and special packaging. Special events would incorporate free wine tastings or dinner events. Custom shipments would allow for the wine club member to specify red or white varietals only. Value added material incorporates winery information and wine education. A portion of the wine club benefits could also be donated to charity. Special packaging could be in the form of premium style bottling or the option to design personalized labeling. The right mix of benefits could make wine enthusiasts choose one wine club over another.

Beyond expressing loyalty to a brand, wine clubs come with a plethora of other benefits as well. The most common and well-known benefit of wine clubs comes in the form of discounts on wine purchases followed by complimentary tastings at winery tasting rooms. Other benefits include

access to private or special events, member's only newsletters, personal wine concierges, or discounts on winery related merchandise.

Social Media and Digital Marketing

How do wineries create a cult following for their brands? Beyond the traditional tasting rooms and wine clubs, some wineries are moving into the twenty first century with a multitude of new tricks.

The United States Alcohol and Tobacco Tax and Trade Bureau provides strict guidelines on what and how wineries can utilize certain marketing tools such as social media. While these regulations prohibit running contests that give away wine and enforce monitoring of user-generated content for anything that might promote irresponsible drinking, opportunities still exist to generate interactive online content (TTB.Gov, 2018). Given that caveat, social media can be very influential and cost effective. For instance, 19 Crimes recently introduced an innovative augmented reality app which shows the convict pictured on the bottle telling his story. The app was prominently mentioned and shared in social media. In short time, this brand had been extremely successful, earning 'Hot Brand' status for the second consecutive year from Shanken Communications. This award is given each year to wine brands showing sustained double-digit growth over several years (Treasury Estate Wines 2018).

Smaller wineries are in prime position to take advantage of the power of social media. Whitehall Lane, located in Napa Valley, is an example of the smaller winery that has. It started to experiment with Facebook and Twitter in 2009 and has since expanded to Instagram, Pinterest, as well as a company blog. The results and analytics are quite impressive:

- Increased direct sales month-to-month even with no increase in tasting room walk-ins
- Increased sales to wine club members by 39 percent on a year-to-year basis
- 99 percent retention of wine club members month to month
- Increased wine club sign ups at partner restaurant wine dinners.
- Sold out wine dinners at partnering restaurants

The winery studied and learned from the past success of other social media leaders, including partnering with complementary brands. While Federal regulations prohibit alcoholic giveaways, Whitehall Lane formed strategic partnerships with other providers that are legally able to provide giveaways to their followers. Additionally, the winery strategically interacts with, reposts, and shares content that promotes Napa Valley wine tourism, wine consumption, and even gives sneak peeks into the daily life of the vineyard and their employees. Whitehall Lane has had particular success with strategically repost the most successful posts of their followers, this creating a direct channel of communication to their consumers and growing their following organically. The winery reported "... we've found that when you have genuine, authentic followers, you don't even have to ask them to [re-tweet] or share your posting, because they'll do it on their own," reports Katie Leonardini, direct sales manager for Whitehall Lane.[7]

[7] See Appendix, Figure 9: Whitehall Lane uses Facebook

Figure 8: Examples of 19 Crimes branded corks

Whitehall Lane has also discovered another vital social media strategy: the art of storytelling. In its early Twitter days, staff would search for potential customers on Twitter who were seeking out Napa Wine experiences. In turn, Whitehall Lane would offer these visitors a two-for-one tasting. This approach increased their tasting room attendance, but unfortunately, not their sales. As a result, Whitehall Lane quickly learned that those consumers were looking for free tastings and had no inclination to become loyal, long term customers. Since this past, unsuccessful experiment, with the idea of 'storytelling' in mind, Whitehall Lane has pivoted its Twitter strategy. Now, they focus on providing building a story for their customers. Instead of 'selling' their products and events, Whitehall Lane provides wine and brand specific knowledge to their followers. Now, data analytics show that Whitehall Lane's consumers stay engaged longer with social media outlets because overt 'selling' has declined, and branded educational content has increased.[8]

[8] See Appendix, Figure 10: Whitehall Lane uses Twitter

Figure 9: Whitehall Lane uses Facebook

Whitehall Lane has also noticed a retention in their wine club numbers based on their new approach with regard to wine dinners. Using a novel approach, the winery partners with local restaurants to provide an evening of chef prepared dishes that pair well with their featured wines. Ever since the ramp up in their social media activities, not only are these dinners selling out at alarming rate, but also restaurants are actually reaching out to them to be involved. When a wine tasting dinner sells out, it is a win-win for all the organizations involved. Whitehall Lane has also seen an increase in sign-ups for their wine club at these dinners. "It's a whole new outlet for us," said Leonardini. "Previously the only venue to sign up club members was through the tasting room, but now we can sign them up at these dinners throughout the country (Julig 2013)." This concept demonstrates not only the *power of social media*, but also the *power of strategic partnership*s for smaller wineries.

Conclusions and Recommendations

Marketing and branding are particularly powerful tools for the smaller winery and can help these small businesses adapt to the many challenges that they will encounter. To be successful, smaller wineries must engage their customers with compelling stories and content. This study has outlined a number of smaller winery specific tactics that have been proven to engage customers long-term while making sales. To conclude, the keys to success are as follows:

- Knowing the customer is vital. This allows the winery to cater to specific demographic and psychographic segments. Small wineries must pinpoint channels that their target markets frequent, whether that be online sales channels, big box retailers, Groupon and other discount services, or monthly subscription services such as Winc. Defining these market segments and positioning their brands to respond is key for marketing success. Wineries must gently attract their customers by fostering first the online relationship, then find the best channel for face to face contact.

- Tasting rooms are essential and must be visible and accessible. As previously noted, there are key aspects of the tasting room service that must be followed for customer service and retention success, yet if the tasting room is difficult to find, the customer experience cannot even begin.

- Collaboration is essential. Collaboration with transportation providers is a key to being visible and competitive in the tasting room market. Small wineries can band together in cooperative marketing ventures. Other collaboration possibilities include working with accommodation providers, event planners and wedding coordinators.

- A well-developed brand changes everything. Smaller wineries must have a developed and consistent brand story and image that is shared with the customer constantly and provide impeccable service to wow the customer once they have the opportunity for one-on-one sales. Named products, a very common practice in Australia and New Zealand (e.g., Dandelion Vineyards' Wonderland of the Eden Valley Riesling or d'Arenberg's The Hermit Crab Viognier), make it easy for consumers to remember and recommend a specific wine. Identifying multiple price levels of wine allows price segmentation. Some may be reserved for only wine club members, which can be also segmented into differential categories (e.g., Silver, Gold and Platinum member wines).

- Promotion of the brand will take many forms for the smaller winery. Digital and social marketing are obvious alternatives. But also important are using the local press and wine media, sales promotion to generate demand (such a hosting special events and use of a service such as Groupon) and having a well-trained staff and motivated sales effort in the tasting room.

- Distribution is an important key. This includes developing wholesale accounts, DTC marketing and possibly working with DTC distributors or intermediaries that specialize in working with smaller wineries such as Winsetyr.com.

- Finally, follow up and retention can be done through constant contact and wine club promotion keeping the brand front and center of the consumer's mind. Having a love for the craft and a passion for wine making is at the heart of all successful wineries and the brand loyalists who follow them.

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Appendix

Figure 10: Whitehall Lane Uses Twitter