Napa Valley Register.com

Direct-to-consumer wine sales growing more than twice as fast as industry

Paul Franson | Posted: Thursday, June 30, 2011 6:07 pm

The ShipCompliant Direct Shipping Seminar at the Napa Valley Marriott last Tuesday provided a wealth of information about direct-to-consumer sales and shipping — from advice on how to improve customer relations from Barbara Talbott, former head of marketing at Four Seasons Hotels and Neel Grover, CEO of Internet shopping powerhouse Buy.com, to an update on state wine regulations from Alcoholic Beverage Control and Tax and Trade Bureau spokespersons.

One interesting talk by researcher Marc Engel reported the results of a study done by WinesVinesDATA, the research arm of Wines & Vines industry magazine, and ShipCompliant.

Engel reported that direct sales to consumers from May 2010 to April 2011 totaled 7 million cases, amounting to 3 percent of the total wine sales by U.S. wineries to U.S. consumers — 253 million cases.

Of that, 40 percent (2.75 million cases) were sold through phone, Internet, clubs and at the tasting room for delivery. The rest was carry-out from wineries.

Though only 1 percent of total wine sales, these direct-to-consumer sales are a large percentage of sales and larger source of profits to many small wineries like most in Napa Valley.

And they were up 11.6 percent from last year, more than twice the growth rate of the general market, itself a healthy 4.5 percent.

Those 2.75 million cases represent $1.21 billion, an average price per bottle of $36.64, even though a third of the sales by volume were under $20.

Almost half of the wine value was from Napa Valley, with an average price of $51.94 per bottle, but the rest of California (not Napa or Sonoma) was up 43 percent and Napa only 19 percent by volume.

Not surprisingly, 43 percent of the direct shipments from Napa were cabernet.

Overall, 27 percent of the wines shipped were cabernet sauvignon, 18 percent pinot noir and 14 percent chardonnay.

Half the sales came from small wineries producing 5,000 to 50,000 cases per year, but the highest growth (168 percent) was at big wineries, those selling more than 500,000 cases per year. Tiny wineries (fewer than 1,000 cases) were down 41 percent.

Almost a third of the shipments were to California, with 9 percent to Texas, 8 percent to New York and 6 percent to Florida.

Meanwhile, Steve Gross, director of state relations at the Wine Institute, reported on changes in state laws, with a number of states opening the doors to direct shipping, including Maryland, starting today.

With many states now open to direct shipping, the Wine Institute and its partners are putting much effort into trying to simplify state regulations and make shipment easier — with considerable progress.

Gross and Tracy Genesen, partner, Krikland & Ellis, reported on the threat from the House bill to create state primacy in alcohol laws, via a bill introduced on the behalf of beer and liquor distributors last year.

In its reintroduced form, it has only one third the sponsors of last year, and no senator has introduced an analogue. But Gross warns that distributors have made large contributions to representatives, some accepting funds the day they signed up to co-sponsor the bill.

John Hinman and Suzanne DeGalan of beverage law specialist Hinman & Carmichael, along with Jerry Jolly, a consultant to Pillsbury Winthrop Shawn Pittman, the former director of the California Alcoholic Beverage Control (ABC) bureau, gave their views of the murky issue of unlicensed third parties like magazine wine clubs and Internet sites ‘selling’ wine.

In simplified terms, they said these efforts should be regarded like a magazine ad, but warn that all transactions should be handled by the licensed seller (winery, in most cases and clearly differentiated from the 'advertiser.')

Retailers and so-called 'virtual wineries,' which are retailers in most other states, can't legally ship wine to most states now.

Susan Evans, who handles executive liaison for industry matters for Tax and Trade Bureau, ran through proposed changes to federal alcohol regulations, none significant implemented yet.

She spent considerable time lamenting the TTB's tight budget, which is extending time for many applications. By coincidence, an article on the Wines & Vines Internet site Tuesday reports the TTB raises almost $24 billion, yet $1 million is being cut from its $100 million budget.

Finally, Lori Ajax, district administrator of Trade Enforcement Unit, California ABC, reported on recent changes in the law, including new instruction licenses that allow wineries to pour at retailers. She also clarified some issues about warehouses, direct shipping in California, and reported on loosened rules for joint tasting rooms.

She also said the ABC has created four committees of suppliers and others interested to look at regulations — including third-party providers — for the first time.

Their first reports will be delivered soon, and could affect the ABC's regulations and enforcement. It might also spur requests for the state Legislature to change some alcohol laws to reflect modern technology; most laws date to just after Prohibition ended.