Meritage WINE & SPIRITS

Harnessing 3½ Tier Wine Distribution

Small and mid-size distributors offer level playing field but require higher margins

by Paul Franson

WINE DISTRIBUTION CONSOLIDATION THREE TIER MARKET SHARE

Credit: M Shanken Communications Inc, 2015

Napa, Calif.—In this era of distributor and retailer consolidation, new and smaller wineries are looking for alternative routes to sales. Many have turned to direct sales to consumers after finding it difficult to attract effective distribution. Others seek specialized distributors, some wineries are going direct to trade (where allowed), and bridge marketers are offering a way to better leverage distributors. You might call it 3½ tier distribution.

These companies, often importers that grew to offering marketing and sales efforts to domestic companies as well, supplement distributor resources, allowing them to serve the original purpose of warehousing, delivery, billing and collections. Among these companies are Wilson-Daniels, V2 Wine Group and Old Bridge Cellars. An executive of the latter two organizations spoke at the recent seminar “Managing the Three-Tier Distribution System,” organized by the Seminar Group.

Scott Ericson, senior vice president and national sales manager with V2 Wine Group, summarized current consolidation in the industry. “There were 1,800 wineries and 3,000 distributors in 1995. Now there are almost 10,000 wineries but 675 distributors,” Ericson said, defining “distributors” as having their own warehouses and delivery trucks.

The top four distributors control 60% of the $52-billion market: Southern Glazer’s with $16 billion (29%), Breakthru Beverage Group (Charmer/Wirtz) with $7.2 billion (14%), Republic $5.8 billion with (11%) and Young’s Market Co. with $3 billion (6%). In addition, many small distributors operate almost like brokers. Ericson also noted the rise of specialized distributor entities within existing distributors like those specializing in fine wines. Retailers are consolidating, too. The top 10 retail grocery chains account for more than 50% of $594 billion in grocery sales. There were $45 billion in supermarket mergers in 2013?15, the hottest pace of consolidation since 1999.

Club and liquor chains are also growing and consolidating. Restaurant sales in the United States are estimated at $709 billion. Only 35% of the 1 million food outlets serve wine, yet 19% of wine case sales occur in restaurants.

Old Bridge Cellars president Rob Buono categorized the distribution opportunities for fine wineries thusly: “The fine wine divisions of the big guys are stable, professional and have good wine knowledge—if they’ll have you. It’s a very crowded field.”

He said that mid-size distributors of mostly fine wine, some artisanal spirits and/or craft beer have limited big wine offerings and better fine wine knowledge with more interesting/esoteric offerings. “They have higher profit requirements because they lack low-end wines and high-volume spirits and have higher logistic costs.” He added that much competition exists with multiple priorities but a more level playing field.

Pure small or mid-size distributors of fine wine see minimal financial impact from spirits and usually have reduced market coverage; retail high spots and limited chain and national accounts. They’re good with on-premise execution. They need high profits and high commissions; some use freelance reps. There’s always the question, “Will you get paid…and when?”

Ericson’s growing V2 portfolio currently includes 20 family-owned wineries typically producing 10,000 to 20,000 cases annually. As a bridge marketer it offers sales, marketing and three-tier management. It works with many distributors, and the combined wineries in its portfolio create a total size that motivates those distributors. It concentrates on regional chains.

Old Bridge Cellars represents distinctive, regional Australian wines that are pioneers of their regions; during the past eight years it has expanded its offerings to represent artisanal winemakers and their wineries from New Zealand, France, Italy, Chile, Oregon and California. Old Bridge Cellars was founded in 1993 in Napa, Calif. Its wineries typically produce 1,000 to 100,000 cases annually. It also produces four brands.

Buono said the company offers fine wineries a complete package: distributor management, key account representation, marketing and promotional materials distributed by the sales team and event participation (trade, consumer, wine dinners).

Old Bridge Cellars manages a network of more than 120 distributors and brokers across 50 states, the U.S. Virgin Islands and Puerto Rico. The distributors they do business with will typically be fine wine houses (i.e. Cutting Edge, Left Bank, Imperial) or within a fine wine division of a larger distributor (TEG of Young’s Market Co.).

Buono said, “This national network provides us the required footprint to deal with larger national on and off sale customers. Buono said that smaller wineries need to take advantage of being nimbler/faster to market but to prioritize offerings for retailers and distributors. “Stay with your strength; winemakers love to create and experiment/save you small ideas for your DtC business. Don’t distract from your focus items. More volume through fewer SKUs make a distributor happy and your brand easier to manage among the many.” He also said that a $20?30 California Pinot Noir has competition from Oregon, New Zealand and France. “Where do you stand. What are your differences in style? Do retailers need yours?”

His and similar companies work to make sure they do.