The Time is Ripe for
Wine & Spirit Retailers

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Setting the Stage for New Opportunity

Due to the stifling regulatory requirements imposed on them, traditional independent brick-and-mortar liquor store wine retailers have, to an extent, had to watch from the sidelines as the ecommerce and multi-channel retail game has evolved and played out to present day. However, recent changes in the regulatory atmosphere, as well as certain technological enablers, are bringing the winds of commerce change to the wine and spirits retailer’s door. These changes herald both a challenge and a great opportunity for the wine retailer to expand its business beyond its physical doorstep into the virtual Web world.

The ruling in *Granholm v. Heald* in 2005 paved the way for wineries to ship direct to consumers in other states, and the continued lobbying efforts of organizations such as the Specialty Wine Retailers Association, Coalition for Free Trade, and the Free The Grapes initiative appear to be making significant headway in their efforts to raze the long-standing barriers to interstate wine retail sales (despite staunch opposition by the Wine & Spirit Wholesalers of America).

Consumer shopping behavior and trends are also paving the way for the wine retailing revolution. Today’s shoppers are gravitating to retailers that can provide a seamless and highly satisfying shopping experience across channels, whether online, in-store, or through a call-center. Customers expect to be able to shop however, wherever, and whenever they want—interacting with the retailer through the channel(s) of their choice. For instance, a customer may prefer to make a wine purchase online, then go to the store and quickly pick up the waiting order on the way home from work. Web 2.0 technology has helped empower social shopping—consumers flock to blogs, comparison shopping engines, and store’s with product reviews before making purchases.

These changes present both an opportunity and challenge for traditional liquor store wine retailers.

Overall retail sales of the wine category appear to be shrugging-off the adverse effects of the sluggish economy. Indeed, somewhat surprisingly, the high priced wine segment seems to be doing best of all (as evidenced by case volume being substantially outstripped by dollar sales). But, there is a caveat in this good news for the liquor store wine merchant. Economic stress seems to be changing consumer shopping patterns, shifting wine channel sales towards wine retailers such as convenience and grocery stores that offer low prices with a broader mix of products so consumers can save on gas by consolidating their shopping trips. Danny Brager of the beverage and alcohol team at The Nielsen Company comments on this trend, “There’s more one-stop shopping, so there’s some pressure on places like liquor stores because consumers are going to where people have choices of different products.”

Of course, the attractiveness of wine sales has led to an increase in competition to traditional liquor store wine merchants, both in direct brick-and-mortar competition and through online sales channels. Overall, from 2006 to 2007 there was a 3.8% growth in the total number of wine off-premise channel stores, including a 2.8% growth in new liquor stores. Of potentially greater concern to the traditional liquor store wine retailer is the attention and focus that the wine and spirits segment is getting from natural/gourmet retailers and mega retailers such as Wal-Mart (which has even added its own line of private label wines). In 2007 wine was Wal-Mart’s second largest growth category, up 47%.

Changing consumer shopping patterns, influenced in part by high fuel costs, are also furthering the trend for consumers to shop through the online channel. Shoppers use the Web in lieu of driving to a store, or at very least to check prices and availability for desired items online before making a trip. The success of online wine retailers such as Wine.com has clearly demonstrated both the market potential and logistical feasibility of selling wine direct to consumers through the Web—so much so that ecommerce behemoth Amazon.com has announced that it once again has set its sights on selling wine online, and numerous other new wine retail sites go online every day.

The bottom line for the traditional liquor store wine retailer—these times present both opportunity for growth, and greater competitive threats than ever before. The savvy wine and spirits store owner can address both of these issues by participating in new sales channels, effectively expanding its trade area virtually to sell to a market of millions of wine consumers. This growth opportunity is particularly significant for those liquor stores in state’s that prohibit owners from having more than one physical store.

The Need to Diversify and Differentiate

A liquor store wine and spirits retailer that launches a web store and participates in the various online wine marketplaces can add a very lucrative sales channel that is always “on”, 24/7/365 at work pumping cash into the merchant’s coffers.

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The Time is Ripe for Wine & Spirit Retailers

By utilizing wine clubs and other types of loyalty and continuity programs such as preferential pricing tiers, wine retailers can redouble their sales on a recurring basis over time.

On the flip side, the incredible opportunity to make money selling wine through online sales also means that there is more competition. Now the corner wine and spirits liquor retailer not only counts the liquor store or BJ's Wholesale Club in his geographic trade area as his competition, but also the host of online wine retailers in his virtual trade area.

This means that just “being there” online isn’t enough. Merely “sticking your toe in the water” by throwing up a cookie cutter stand-alone web store, or selling a few bottles through a thin 3rd party storefront or aggregator site, will most often deliver mediocre results as these “me too” approaches offer little means for the retailer to differentiate itself and stand apart from the competition.

As the wine ecommerce marketplace becomes increasingly crowded, success becomes harder and harder. The ability to stand out from all the other wine retailers is absolutely critical—it is the difference between being an online success story and an “also ran”. The wine and spirits retailer has to differentiate and leverage superior capabilities to win and retain notoriously fickle online shoppers. To make a big splash in wine retail you have to make a commitment to it and jump in head first.

The would-be online wine retailer needs to be competitive not only its pricing and product assortments, but in having: the latest Web 2.0 product search capabilities; products listed always in-stock; the easiest checkout; comprehensive wine reviews and suggestions; the most efficient order fulfillment process; loyalty programs and volume discounts. If the would-be retailer doesn’t have all of these ingredients, then guess what—the wine retailer two tabs over in the shopper’s browser will, and his store will get the sale. To succeed and win you have to build on a foundation for continuous innovation to engage, delight and satisfy the customer every time.

Planning for Success

Success doesn’t just happen; you have to plan for it. To delight customers in today’s fast-forward retail world you have to effectively manage your store brand, products and delivery across different sales channels simultaneously—while maintaining a single customer “view” (history of inquiries, orders, shopping habits and preferences) and consistency in brand presentation, communications and service quality across channels.

This can seem like a daunting task for a traditional liquor store owner, given the potential bottleneck in both staff and other business resources. Even if the would-be multi-channel wine and spirits retailer can somehow juggle and manage all these elements for a low volume of orders, once order volume increases the challenge redoubles. Ironically, one of the biggest challenges that a retailer can face after going multi-channel is its own success. Once a multi-channel retailer that started out online using the bare minimum of technology and automation, or disparate systems cobbled together, reaches a certain level of sales, its ability to adequately manage its growth and serve customers can grind to a halt.

This situation can be avoided with a little foresight and careful planning before going multi-channel. The proper balance of using existing staff and the right technology can bypass common pitfalls and pave the way for long-term growth and success.

Common Pitfalls include:

- Failure to automate repetitive processes
- Using a separate system for each channel and business function
- Reliance on custom “home-grown” or IT intensive applications

Failure to automate repetitive processes

Relying on spreadsheets, post-it notes and midnight oil to “make things work” can be done—at least initially. But orders and sales can quickly reach a threshold where repetitive manual and duplicative process will break down and service quality will suffer. Automation is your friend. Identifying critical order-to-fulfillment paths and putting standardized automation and rules in place to manage them is the key to business efficiency and scalability.

Using a separate system for each channel and business function

Wine and spirits retailers that start out with separate web store and POS systems often have to manually take the customer information from web orders run it through their POS terminals for processing then enter the
customer information into a shipping program. The amount of manual and redundant labor involved in processing orders with cobbled together retail systems like this is a limiting factor to both capacity and delivering great service. There is also an inherent time lag in the “system” and potential PCI security issues depending on the process for handling customer credit card information.

In another common situation, a customer comes into the store in the evening before close and buys the last case of a wine that the retailer also happens to be selling online. This exposes the retailer to the risk of creating a bad customer experience online if they buy something that’s not in stock. Never mind the lost sale. In the age of blogs, social shopping and customer reviews, bad buyer experiences can be poison to the reputation and sales of a wine merchant. Plus, at any given time, the lag between reconciling Web and store sales means there is never a clear view of true sales and inventory levels.

What if you have product changes or updates to make? With disparate systems, you have to go into the inventory and POS system to change each product, then the same will need to be done to the web store inventory, as well as to any data feeds for online marketplaces. Over time this duplicative effort can lead to errors, bad customer experiences and administrative headaches.

Centralization and true real-time integration is also your friend and another key to scalability, business performance management, quality service and consistent brand image.

Reliance on custom “home-grown” or IT intensive applications

We have seen many examples, particularly amongst smaller retailers, where an in-house IT expert or consultant created a unique system that worked well and was customized to even the minutest needs of the business. In this situation, the ongoing cost of maintaining an IT developer, or staff of developers for larger retailers, can be substantial. Additionally, there is a risk to business continuity if the only person that can fix a problem with the system gets sick, goes on vacation, or leaves the company.

Custom systems are also expensive to keep up to the current “state of the art” in terms of retail functionality and performance, and often lag behind industry best practices. On-premise systems can create similar IT administration and maintenance cost burdens due to the need to support upgrades, patches and users.

In contrast, a software as a service (SaaS) or On-Demand software application places the ongoing IT maintenance and development burden on the service provider—effectively outsourcing the IT and developer roles so the retailer can focus on core business functions such as merchandising, marketing and customer service.

An on-premise software provider also doesn’t have the same direct incentive to continuously improve their product. Once you have paid your licensing fee to the on-premise software provider, they don’t care about your business until it is time for annual license or contract renewal. For an on-demand software provider that is paid based on the retailer’s sales transactions, there is a built-in incentive for the provider to continuously improve their product to increase the retailer’s sales effectiveness.

Identifying and avoiding pitfalls such as these before embarking on a multi-channel retail initiative will allow you to successfully grow your business across channels using your existing staff and business resources.

Even Online, Retail Is Still About Location, Location, Location

Every brick-and-mortar retailer is familiar with the real estate mantra of “location, location, location.” Picking the wrong location can spell business disaster, so great emphasis is placed on identifying the spot with the best accessibility, traffic counts, and demographics.

The same care needs to be taken by the liquor store wine and spirits retailer looking to expand into online sales. In this situation location doesn’t pertain to a physical street address or strip mall location, but to the virtual equivalent—how easily the retailer’s web store and products can be found by the right wine shoppers online.

The would-be online wine retailer needs ensure that the design of its web site is optimized for indexing in major search engines such as Google and Yahoo. Here location is the placement of retailer’s products in search results—a listing on the top of the first page being the best “real estate,” with listings after the first page relegating the retailer to relative obscurity (the virtual equivalent of having a physical store with no roads leading to it). The most dazzling looking web site and product assortment means nothing if customers can’t find it.

Wine merchants can also effectively multiply their storefront’s visibility by participating in online marketplaces and comparison shopping engines such as Wine.com, Snoop.com, Amazon or many others. So it is important for the would-
The Time is Ripe for Wine & Spirit Retailers

be online wine retailer to ensure that any system deployed to support web sales can efficiently manage product data feeds, listings, and brand image across this seemingly endless array of online sales channels.

Harvesting Your Share of Online Wine Sales

Given both the tremendous opportunity, as well as the threat of increased competition, it is crucial for any traditional independent wine and spirits retailer that wants to expand and diversify its wine sales into new channels to pick the right retail system to support and manage its growth initiative.

The would-be multi-channel retailer needs to plan for success. That is, to make sure that the retail management system it will rely on can do the following:

- **Provide a competitive advantage and means of differentiation from the competition.**
- **Be search engine optimization (SEO) friendly, with the ability to support and manage multiple online marketplaces to increase exposure.**
- **Efficiently manage and scale operationally to accommodate successful cross-channel growth.**
- **Squeeze out costs, maximize productivity, and reduce errors through single entry of order information and process automation**
- **Stay current with ecommerce and retail technology best practices, delivering superior capabilities.**
- **Deliver a real-time, 360° view of the retailer’s business and customers across channels**
- **Minimize IT expenses and management so the retailer can focus on its core business issues**

The key is to focus on what will make your business truly great and exceptional to customers. **Stand out from the crowd.**