



STRATEGIC GUIDANCE FROM THE GROUND UP<sup>®</sup>

## Seeking Distribution: Tips for New or Growing Wineries on How to Approach the Wholesale System

Implementing an effective distribution strategy can be an excellent way of building a wine brand. Wholesalers provide sales know-how, relationships with accounts and their buyers, expertise in the three-tier system and logistics, and a network of “men on the street” who serve as winery ambassadors. Distributors are a set of business partners -- an extension of the winery, so selection for proper mutual fit is critical.

Before considering adding distribution to your sales strategy or even approaching a wholesaler, it is important to understand this dynamic segment of the industry. An industry colleague, Craig Eastman of Northwest Core Collection based in Portland, Oregon, likens the changes in distribution to an hourglass, with suppliers pouring into a narrower middle tier and trying to reach a wider base. From a supplier to wholesaler point of view, it can be thought of like a “funnel” that’s been turned 180 degrees:



Twenty years ago, the funnel was upside-down, with the narrow part at the top representing winery suppliers. It was easier for winery suppliers to gain distribution given less competition and wider availability of smaller wholesalers from which to choose.



Today, there has been a dramatic shift: the funnel has many more wineries trying to pour into a much narrower marketplace given growth in the number of producers and widespread consolidation of wholesalers. The dynamic and complex nature of shipping and compliance regulation adds further fuel to the fire.

While the above may seem daunting or even discouraging, being aware of the current business situation will help you make better decisions regarding your sales strategy. It may even be tempting or advisable to shun distribution all together in favor of a fully direct-to-consumer (DTC) sales strategy, but this decision depends on a winery’s goals and production. (Know that DTC has its challenges, too: customer acquisition and retention, less sales strategy diversification, potential growth limitations, compliance, etc.)

In short, there is no perfect answer -- each winery is advised to consider the pros and cons of engaging wholesalers within the framework of its broader business strategy. Asking the right initial questions and knowing best practices for seeking distribution is very important. Below is a step-by-step approach:

**1. Decide if distribution makes sense. *First tackle the supply side of the equation.*** What is my current production? Am I planning to grow it and if so, at what rate? Will doing so be profitable? ***Then look at the demand side.*** Am I selling everything that I make through DTC channels? Is this working and meeting my needs? If I’m growing production, are my DTC sales growing at a similar rate? (Or for a rare few, do I have the advantage of a multi-year waiting list and no plans to grow.) Are there accounts who have requested my wines? Do I have press that supports my quality and unique story?

At one extreme, a winery selling everything it produces with more demand than supply and limited growth plans may decide not to pursue distribution. On the other end of the spectrum, a brand with plans to grow and a goal of national presence with on- and off-premise accounts will need it. There are many business situations in between and the right answer will depend on each winery's unique factors, inputs (resources) and desired outputs (goals).

**2. Have a plan.** Assuming distribution is a fit for you, the next step is to approach it in a business-like manner. Decide how many markets you'll explore in the coming year or two. The number will depend on the amount of time you have to research and network and your production. (Hint: a 500 case winery should not aim to place 10 cases in each state -- doing so would create quite a hassle given the time needed to manage wholesalers and spread volume way too thin.)

Choose a number of target markets that make sense to you. These may be the traditional high volume states like California, New York, Florida and Texas. Or perhaps second-tier states where there may be less competition such as Arizona, Colorado, Virginia or Washington. Maybe you have personal reasons to travel to certain markets given family or other interests -- consider these, too. The main point is to be realistic about states that may be a fit and understand that your presence in each of these markets will be necessary to drive sales.

**3. Do your homework.** Once you've determined your target markets, you'll need to do some research. Find out if you're pursuing a franchise market -- these states have laws making it more difficult to unwind distribution agreements and entering should not be taken lightly. Gain an understanding of pricing and sales trends by reading the state's beverage journal (<http://www.bevnetwork.com/bevnetwork.asp>). Ask your industry colleagues or buyers in accounts you frequent in the market with whom they do business and why. Try to find out about the wholesaler's financial policies (i.e., does the business pay its bills), reputation, storage conditions, etc.

When you've found a potential match, study the distributor's portfolio -- this is typically available on the company's website. Does it look like a collection of wines with which you'd like yours to be associated? Does a wine or category you offer fill a need or create a new category that may be of interest to the wholesaler? Will your brand be a big fish in a small pond or a small fish within a sea of competition? What territory or territories are being covered? Is the business restaurant or retail focused? Do sales reps hand-sell fine wines or move volumes of beer and spirits suppliers' products?

**4. Craft your pitch.** Determine what uniquely defines your wines. Pull together your materials, press reviews, account list and any other third party endorsement of your winery's performance. Solicit any potential new accounts who would buy should your wine become available in the market. When preparing to approach wholesalers, demonstrating traction and demand is very important. Unknown brands with little recognition and support are not competitive and represent a lot more work for the distributor.

**5. Approach your target effectively.** Try to get a colleague who is already doing business with the wholesaler to recommend you, or at least seek an introduction so yours is a warm call. Do not send a box of samples with a note “Dear Owner” and a pile of information. Instead, call or email the owner or manager and politely introduce yourself, state your (specific) reasons for why you think a business partnership would be mutually beneficial and outline what you’re prepared to offer such as training, market visits, samples, ideas for sales, etc.

When you do get an appointment, be sure to have F.O.B. pricing and goals for case sales, account break down (percentage of on- or off-premise), market visits, training and education available, and a list of questions in mind. If you are turned down, do take the time to ask why the decision was made and ask for a follow up appointment or referral if possible.

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